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NATIONAL MONETARY COMMISSION

Clearing Houses

BY

JAMES GRAHAM CANNON

Vice-President Fourth National Bank, New York City



Washington : Government Printing Office : 1910

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CLEARING HOUSES.

CHAPTER I.

CLASSES OF CLEARING HOUSES.

A CLEARING HOUSE DEFINED—CLEARING HOUSES CLASSIFIED WITH RESPECT TO FUNCTIONS—CLEARING HOUSES CLASSIFIED WITH RESPECT TO THE FUNDS USED IN SETTLEMENTS.

What is a clearing house? The supreme court of the State of Pennsylvania has defined it thus:

It is an ingenious device to simplify and facilitate the work of the banks in reaching an adjustment and payment of the daily balances due to and from each other at one time and in one place on each day. In practical operation it is a place where all the representatives of the banks in a given city meet, and, under the supervision of a competent committee or officer selected by the associated banks, settle their accounts with each other and make or receive payment of balances and so "clear" the transactions of the day for which the settlement is made.

But we must go farther than this, for though originally designed as a labor-saving device, the clearing house has expanded far beyond those limits, until it has become a medium for united action among the banks in ways that did not exist even in the imagination of those who were instrumental in its inception. A clearing house, therefore, may be defined as a device to simplify and facilitate the daily exchanges of items and settlements of balances among the banks and a medium for united action upon all questions affecting their mutual welfare.

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The clearing houses in the United States may be divided into two classes, the sole function of the first of which consists in clearing notes, drafts, checks, bills of exchange, and whatever else may be agreed upon, and the second of which, in addition to exercising the functions of the class just mentioned, prescribes rules and regulations for the control of its members in various matters, such as the fixing of uniform rates of exchange, interest charges, collections, etc.

Clearing houses may also be divided into two classes with reference to the funds used in the settlement of balances: First, those clearing houses which make their settlements entirely on a cash basis, or, as stated in the decision of the supreme court above referred to, "by such form of acknowledgment or certificate as the associated banks may agree to use in their dealings with each other as the equivalent or representative of cash;" and second, those clearing houses which make their settlements by checks or drafts on large financial centers.

CHAPTER II.

CLEARING-HOUSE TERMS.

HOW USAGES DIFFER—THE MEANING OF “TO CLEAR”—
CLEARINGS—EXCHANGE AND EXCHANGES—BILLS AND
BILLS OF EXCHANGE—DRAFT AND CHECK—ACCOUNTS
BALANCED AND BALANCES IN ACCOUNTS—COLLECTIONS—
ITEMS — CLEARING MATTER — SETTLEMENTS — OUT-OF-
TOWN CHECKS AND COUNTRY CHECKS.

Every profession and every line of business, as well as every trade, develops its own peculiar terms and phrases. Those who become familiar with the routine of the business or the profession use these terms among themselves with a degree of precision and certainty of meaning which sometimes is difficult for one outside of the group to comprehend. The usage in this regard by banks and clearing houses is no exception to the general rule.

Terms which are current in one part of the country or in one financial center do not always obtain in others, and to a certain extent different terms are sometimes employed in different parts of the country for indicating approximately the same things. For these reasons, and others which the reader will readily apprehend, a brief consideration of a few of the prominent terms employed in clearing-house affairs is appropriate by way of introduction to the more important chapters which follow.

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Nothing like a complete list is attempted, and instead of presenting the definitions in conventional dictionary fashion, the meaning of certain terms and the special uses to which they are applied are laid before the reader in a far less formal manner.

The term "clearing house" is defined at some length in another part of this volume, from the standpoints of use and function. The word is also used in the sense of location or place. A clearing house may be described as an office, established by the banks of a city, where their representatives meet daily to exchange drafts and checks and adjust balances.

The term "to clear" is popularly defined "to pass through the clearing house." Another definition is, "to settle accounts by exchange of bills and checks, as is done in the clearing house." To clear a check means to pass it from the bank that holds it as a deposit or for collection to the bank on which it is drawn, and to receive payment therefor; but, with the complexities of modern business, a single check is seldom cleared. Instead a multitude of checks and other items are included in each clearing. The term "to clear" therefore takes on a broader meaning, and the only adequate conception of it is afforded by a view of the actual operations of a clearing house, which are set forth in another part of this volume.

The word "clearing" designates the settlement of balances between banks, arising from the interchange of checks, drafts, etc., carried on at the clearing house. The term "clearings" signifies the total of differences bal-

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anced at a clearing house. Occasionally the words "clearance" and "clearances," which, properly employed, designate space or distance, are used in the place of "clearing" and "clearings." Their employment in the place of the latter is not justified by general usage nor by the real meaning of these forms of the word.

The term "exchange," so common in financial and business transactions, has various shades of meaning, ranging from a charge for the transfer of money from one point to another, to the place where business interests of a special class are brought together and where contracts concerning them are made. The word literally means the act of giving one thing as an equivalent for another, or for interchanging two equivalents. From this it comes that the word indicates that which is given or received by an arrangement for mutual interchange, and hence the term "exchanges," frequently employed by those who have transactions with the clearing house, to indicate the items that are to be exchanged, as, for example, in the phrase: "The amount of exchanges."

The term "bill" has several different meanings, ranging from a statement of an account, or of money due, to a bank note or government note. Occasionally, in loose usage, it means a promissory note. In Great Britain the term is frequently used to mean a bill of exchange. As used in connection with clearing-house affairs in this country, it usually designates bank notes or government notes.

A "bill of exchange" is a written order or request from one person to another, for the payment of money

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to a third, the amount to be charged to the drawer of the bill. This term, therefore, while having a special meaning in some cases, often includes drafts which are drawn by merchants upon their customers in ordinary course and put through bank for collection. The term in this sense, however, is less commonly employed than "draft."

A "draft" may be described as an order drawn by one party on another for the payment of money to a third. It is for the most part limited to an order payable at, or collectable through, a bank or other financial agency. A draft made payable at some time other than at sight, and which has been accepted by the party upon whom it is drawn, is known as an "acceptance," and is treated by banks and clearing houses the same as a note.

A "check" is an order in writing upon a bank or banker for the payment of a designated amount of money to some designated person or order. Checks vary in form. Those which are current between banks and bankers—as, for example, the checks that would be used by a country bank in drawing against the balance lodged with its New York correspondent—frequently take the form that commonly obtains with drafts. Hence the term "bank draft" or "banker's draft," often employed by those who purchase New York or other exchange of their local banks to designate the character of their remittance.

A "center" is described as, in the dictionaries, the place about which things cluster, or to which they converge. It is also described as the point of emanation

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or radiation. With this definition before us, it is easy to perceive what is meant by a "money center" or a "financial center."

The term "balance" has two distinct meanings, and the word is used among bankers and business men in a way to indicate two things entirely different from each other. In its simplest form a balance may be declared to be an equality between the credit and debit totals of an account. But it is also used to refer to the difference between such totals, or, in other words, the excess on one side or the other. Thus in the first sense we declare that an account is balanced when it has been closed by securing an equality of the two sides. In the second sense, when we speak of the balance in an account, we mean either the debit or credit amount, as the case may be, that is required to produce an equality of the two sides, or, in other words, to close the account. The balances in a clearing-house statement are the respective differences between the debit and credit sides of the several accounts included in the statement. A bank's balance in a clearing-house settlement would mean either the amount that it has to pay or the amount that it is to receive, according to the excess of debits or credits shown by the statement.

The dictionaries define the verb "to collect" as follows: "To gather money from many people." A collection is defined as "that which has been gathered or taken up;" but among the banks and in clearing-house circles the term "collection" is somewhat expanded beyond these limitations, and is used for designating that which is to

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be collected. For example, the drafts or bills of exchange which a bank holds at a given date are frequently designated as its "collections," particularly at the time that they are being arranged in proper order for transmission to its correspondents or for delivery to the clearing house. Sometimes the term employed in such cases is "collection items," which, of course, means the items for collection.

An "item," as the term is generally understood, means a separate article or entry in an account or schedule, or a sum so entered. The term among banks and in clearing houses is used in the latter sense almost literally. An item is that of which an entry has been made, whether it is a draft, bill of exchange, check, or note.

The word is frequently employed in combination with a qualifying term, as, for example, "collection items," "out-of-town items," "city items," etc.

A term which is as nearly original with and peculiar to clearing houses as any that might be cited is "clearing matter." "Matter," in this phrase, is a collective term, and designates any and all of the items that go into a clearing house. Clearing matter then means that collection of items, however assorted, which may be cleared. "Acceptable clearing matter" would designate that which is acceptable, according to the rules of the clearing house. There would, of course, be the opposite or negative term; for example, "unacceptable matter," meaning that which, while having somewhat of the character of clearing matter, is not of a kind that is handled by the clearing house in question, under the rules governing its operation.

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A settlement, in ordinary commercial affairs, is an adjustment of accounts. "To settle" means to liquidate, or to pay, or to adjust differences. A "settlement" may mean either the act of settling or that which is accomplished by settling. A bank's clearing-house settlement therefore means an adjustment or payment of the difference between the debit and credit side of the account and further designates either a receipt or a disbursement, as the case may be. Each member bank has a settlement with its clearing house daily.

In the designation of checks, with respect to the location of the banks upon which they are drawn, considerable confusion exists at times in the term employed for the purpose. "Personal check" and "local check" are terms occasionally used to indicate out-of-town checks or checks on country banks. An out-of-town check is one drawn upon any bank outside of the city in which a given clearing house is located, or outside of the city in which member banks of the given clearing house are situated. In other words, it is one that must be sent away for collection. The term "country check" has the same general meaning, but is applied more particularly to checks drawn upon banks located at a considerable distance from a given clearing-house center. Referring again to the terms "personal check" and "local check," above referred to, it must be evident to everyone who gives the matter the least thought that a check drawn by a depositor on a bank in New York would be a local check, and that it also would be a personal check, and yet such a check, issued in the regular course of business, is not objection-

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able from any point of view. On the other hand, a check drawn by a merchant in an interior town upon a bank in that town, irrespective of the responsibility of the drawer or the standing of the bank upon which it is drawn, would also be a personal check; but the latter would not represent par funds in New York. Out-of-town checks and country checks, accordingly, are subject to special regulations with respect to costs of collection.

CHAPTER III.

SPECIAL FUNCTIONS OF A CLEARING HOUSE.

PRIMARY OBJECT—EXTENSION OF FIELD—LIST OF SPECIAL FUNCTIONS—ACTION OF CLEARING-HOUSE BANKS AT OUTBREAK OF CIVIL WAR—MUTUAL ASSISTANCE OF MEMBERS—FIXING RATES OF INTEREST ON DEPOSITS—THE PRACTICE IN SIOUX CITY—ESTABLISHING RATES OF EXCHANGE—SOME BUFFALO HISTORY—ROCHESTER—BALTIMORE—HOUSTON—TOLEDO—TOPEKA—ST. LOUIS—WEST SUPERIOR—ST. JOSEPH—CLEARING-HOUSE LOAN CERTIFICATES.

The primary object of a clearing house is the exchange of checks and drafts between the banks associated together for that purpose, and the settlement of balances resulting from such exchanges; but this is not the only function exercised. As already shown, this single function constitutes a clearing house of the first class, while the addition of other functions puts the organization into another class. The tendency has been marked, especially in recent years, to include within the legitimate field of clearing houses all questions affecting the mutual welfare of the banks and the community as a whole. The bankers west of the Mississippi River have given to the country the most striking examples of the possibilities of clearing houses exercising various special functions, while the great associations of the East, and especially that of New York, have exemplified the utility and value of clearing-house loan certificates.

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The most important of the special functions of a clearing house are (a) the extending of loans to the Government, (b) mutual assistance of members, (c) fixing uniform rates of interest on deposits, (d) fixing uniform rates of exchange and of charges on collections, and (e) the issue of clearing-house loan certificates.

Less than a decade after the inauguration of the clearing-house system in America the civil war broke out and threw the Government into a condition of acute financial embarrassment. The ordinary sources of income were insufficient to meet the demands of the approaching crisis. Thereupon the banks, members of the clearing houses in New York and Boston, responded with practical unanimity to the call of the Government for loans, by which the latter was enabled to put armies in the field and maintain the struggle for national unity.

In times of panic it is not infrequently the case that a bank in good standing becomes temporarily embarrassed. Unfortunate report may cause a run upon it, and, being unable to call in a sufficient amount of its outstanding loans to meet the demands of its frightened depositors, it must either secure a loan or fail. In such an emergency the other members of the clearing house are usually willing to render assistance until the strain is relaxed. To secure such aid, however, a bank must be sound in its management and of good repute in every respect. Otherwise the members of the clearing house are likely to decline assistance, being quite willing to get rid of a weak and ill-managed member.

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Another of the special functions of a clearing house is the fixing of uniform rates of interest on deposits, and in a few instances on loans. In some associations the legality of such action is still regarded as a moot question, and hence they are reluctant to enforce such a rule. Other associations, however, have not hesitated to regulate the members on these points. As early as 1881 rates of interest were agreed upon in Buffalo, and were observed practically without fraction or violation for some nine years thereafter. They were broken at last only because of their nonobservance by new banks, which at the outset refused to become members of the clearing-house organization.

The Sioux City Clearing House Association has fixed a maximum rate of interest of 2 per cent per annum, to be paid by the members upon bank accounts or balances, and on time certificates of deposit 3 per cent. Without any special clearing-house regulation on the subject, it is generally understood by the banks that 6 per cent is the minimum rate that shall be charged on first-class loans, and that the rate shall range from that to 8 per cent, according to the character of the risk.

At St. Joseph, Mo., the clearing-house rules provide that interest (not naming the rate) may be paid on balances to banks, bankers, trust companies, the St. Joseph Cattle Loan Company, deposits of the Government, State, county, city, etc., or to individuals, firms, corporations, not located or doing business in St. Joseph or Buchanan County, but that no interest may be paid to individuals, firms, or corporations located or doing business in St.

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Joseph or Buchanan County, except by unanimous consent. Trust companies may pay interest on checking accounts at the rate of 2 per cent per annum, while savings banks, trust companies, and savings departments of commercial banks, on savings accounts, may pay interest at a rate not to exceed 3 per cent. Interest is not allowed on demand or time certificates for a less period than six months, and then at the rate of 3 per cent per annum. No interest is allowed for any fractional part of a six months' period.

The banks of Savannah, Ga., under clearing-house regulation, may pay interest not to exceed 3 per cent on individual accounts, and then only when the balances in such accounts exceed \$25,000. On bank balances, without limitation as to amount, they may pay not to exceed 3 per cent.

The question of clearing-house regulation of the rates to be charged on local loans has been considered by many associations in different parts of the country, but, generally speaking, has not met with much favor. It is quite evident that on this one point the individual banks are jealous of their prerogative to loan their money at whatever rate they choose. The nearest approach to clearing-house rate regulation of loans seems to be in the arrangement in vogue at Chattanooga, Tenn., by which the minimum rate to be charged by the banks in making their loans is determined from time to time by a committee appointed by the associate banks for that purpose.

Still another of the special functions of a clearing house is the fixing of uniform rates of exchange, and of charges

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on the collection of items. In 1881, the year in which the clearing house in Buffalo was organized, a prominent banker in that city succeeded in uniting the banks on rates. The promoter of the enterprise, though well known for rate cutting, was a successful banker and had always been able to meet competition successfully. Hence, when he proposed a uniform-rate system, the other banks were only too glad to consider his propositions. Meetings were accordingly held, schedules of charges were drawn up, and rules were formulated for the guidance of the banks. In a short time a schedule was adopted and put in successful operation. The rates were not high, but were arranged so as to do justice, as far as possible, to the banks on the one hand and the depositors on the other, and so satisfactory was the new régime that it remained in harmonious operation for nearly nine years. It is said that the increase in profits or collections, to the 12 banks interested, over the former method of doing business free of charge, paid the dividends of all the banks each year, and whatever profit was made on loans and discounts was used to build up the surplus. But the formation of new banks finally played havoc with the uniform-rate system. While it lasted, it was made obligatory upon every bank, but in 1891 the newly organized banks began to cut on rates. The clearing-house members endeavored to induce the new banks to join the association, but did not at first succeed. It was regarded as unjust to the member banks to hold them to the existing agreement when their competitors were free, and accordingly, in

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June, 1891, the schedule of rates was made no longer obligatory.

In 1895 the Rochester (N. Y.) Clearing House Association put in operation a schedule of collection charges, and the results have been most satisfactory. All of the banks were in favor of it, but there was at first some complaint on the part of customers. The rates for remittances of city items were fixed at a meeting of the association early in the year 1895, as follows: Minimum charge, 10 cents; from \$100 to \$1,000, one-tenth of 1 per cent; from \$1,000 to \$2,000, \$1; over \$2,000, one-twentieth of 1 per cent; par remittances to be made weekly. Provision was made for a fine of \$1,000 as a penalty for any member failing to observe the rates, \$250 of which to be paid to the party giving the information.

On the 1st day of February, 1897, a rule went into force at Baltimore requiring the members to charge and collect, without rebate, from all individuals, firms, or corporations residing in the city, who might thereafter become new depositors or customers of the banks which are members of the association, such minimum rates of exchange on checks, drafts, notes, and acceptances, payable out of the city, as are named in schedules to be furnished from time to time by an exchange committee of the clearing house. The penalty for violation of this rule is expulsion from the association, provided a majority of the members vote in favor thereof.

At a meeting of the Houston (Tex.) Clearing House Association March 9, 1897, the following resolutions were unanimously adopted:

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Owing to the fact that banks in certain cities of this State are uniformly charging the banks of Houston exchange on all collections not reading "with exchange," bearing indorsements of banks outside the State: Therefore be it

Resolved by the Houston Clearing House Association, That all its members will hereafter, as a matter of self-protection, charge the current rate of exchange upon all collections received from banks located in any city where the foregoing rule is in effect, and which may bear the indorsement of any bank or banker outside of Texas, or originating outside of the State.

Resolved, That this resolution take effect on and after April 1, 1897.

In the articles of association of the Toledo (Ohio) Clearing House it is provided as follows:

It shall also be in the power of such committee (the committee of management) to fix rates of charges on items outside the city and charges for drafts or currency from time to time, if deemed advisable, and change, revise, or suspend the same as circumstances require.

The constitution of the Topeka (Kans.) Clearing House Association touches on the subject of collection charges, as follows:

Rates for collections, whether made or not: Collection payment in advance up to \$50, 10 cents each item; \$50 to \$100, 15 cents each item; \$100 and upward, 25 cents each item. Collections on agricultural implements paper, 25 cents each item. All drafts drawn with bill of lading attached, whether cash items or not, 25 cents each item; and if cash is advanced on the same, not less than 10 cents per 100, or \$1 per 1,000. Rates of exchange on drafts and collections drawn with exchange shall be made at not less than 15 cents up to \$50, 25 cents up to \$100, and 10 cents for each additional hundred. The above charges shall not apply to collections not drawn with exchange received from bank correspondents who do not charge collecting bank on like items.

The clearing-house association at St. Louis has in force a most successful system of collection charges, which are obligatory upon all the banks members of the clearing-house association and upon all banks and trust companies making their clearings through members of the clearing house.

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The original schedules were adopted in March, 1895, and served their purpose well for over twelve years. On the 1st day of March, 1907, however, new schedules were adopted, a synopsis of which follows:

It is obligatory upon every bank and trust company connected with the clearing house to charge for all items received from St. Louis city customers (including all banks and trust companies connected with the association) and passed direct to their credit or cashed for any resident of the city on points (except those designated as discretionary) in certain named States, generally in the East, not less than 75 cents per \$1,000 on the amount of the item. If this per cent when calculated does not equal 10 cents, the charge can not be less than that sum, except on items of \$10 or under, when the charge shall be 5 cents. Items received at one time for one customer, payable at the same collection point, may be treated as one item, and charge made accordingly.

On certain other designated points, generally in the Middle States, the rate of collection is not less than \$1 per \$1,000, and on items drawn on certain States in the West and extreme South the rate per \$1,000 for collection is not less than \$2.

Certain cities are designated whereon the minimum charge shall be 50 cents per \$1,000. Among these are Buffalo, N. Y., Cleveland, Ohio, Indianapolis, Ind., and Pittsburg, Pa. Still other cities are specially named as points whereon the minimum charge shall be \$1 per \$1,000. These cities include Denver, Colo., Lincoln, Nebr., and Omaha, Nebr.

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The rules further name the following cities as points upon which it is discretionary with each bank or trust company as to whether or not it shall charge for collecting items drawn thereon: New York, Brooklyn, Jersey City, Boston, Philadelphia, Baltimore, Washington, D. C., Chicago, Cincinnati, Louisville, and New Orleans.

Each bank and trust company member of or connected with the clearing house is required to collect the foregoing charges on all items not later than the third day of the calendar month next following the receipt or handling of the item, or issuance of the draft or check, and no such bank or trust company is permitted to allow, either directly or indirectly, any rebate or return of any such charges, or to make in any form, whether of favor or otherwise, any compensation therefor.

The violation of any of the rules by any bank or trust company clearing through a member would deprive the same of its connection with the association and work the forfeiture of its rights and privileges in the clearing house. For a similar offense any member would be expelled on a three-fourths vote in favor thereof.

Up to a comparatively short time ago no other association in the country had approached that of St. Joseph in the detail with which it had worked out a system of regulations governing the conduct of its members in regard to making collections. In the past few years, however, considerable attention has been given to the subject by the several associations, with the result that between 50 and 60 per cent of all the clearing houses in the United States are now working under comprehensive

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rules and regulations covering the collection of items which come under this head.

The same is true, to a somewhat less extent, perhaps, with regard to the regulation of the premium on exchange, the cost of transfers by wire, and the limitations to the deposits of city customers, which further functions may well and profitably come within the scope of each local association for regulation.

In this connection each member of the St. Joseph Clearing House Association is allowed to submit a list of the wholesale jobbers and manufacturers and live-stock commission merchants to whom it may sell exchange at 50 cents per \$1,000, and the list must be approved by the association.

St. Louis makes a like charge to any party taking a draft drawn by any bank or trust company member of or connected with the clearing-house association on New York, Philadelphia, or Boston; and if the premium thus estimated on the amount of any draft or check does not equal 15 cents, then the charge on the item must be that sum. This rule, however, does not apply to the purchase and sale of exchange between members of the clearing house or institutions clearing through members.

Upon all transfers by telegraph by members of the Wilmington (N. C.) Clearing House a charge of \$1.50 per \$1,000, plus the cost of the telegram, is made. Transfers by cable command the premium quoted in New York at the time, plus the cost of telegraphing. Transfers by telegraph for banks and city customers, exempt from paying exchange at not less than \$1 per \$1,000, and at a

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minimum of \$2 per \$1,000 to others; for counter exchange, 10 cents minimum and 5 cents for additional purchases at the same time.

The position taken by the New York Clearing House Association in the matter of collecting out-of-town items should be referred to in this connection. It is discussed in another chapter, to which the reader is referred. The same remark applies to the foreign department of the Boston Clearing House, which is likewise presented in another chapter.

One of the most important of the special functions of the clearing house, to which attention will be called, is the issue of clearing-house loan certificates in times of panic. By this means, in some cases, the specie reserves of the clearing-house members have been combined in a way to become a common fund, so that any bank that experienced an unusual demand for specie was supported by the combined reserves of all the banks. The bank thus assisted secures the other members against loss by depositing with a committee, appointed for the purpose of receiving them, its securities in the shape of stocks, bonds, and bills receivable. So important are the history, methods, and results of this remarkable device that special chapters are necessary for their exposition.

Various clearing houses in different parts of the country have incorporated into their rules and regulations certain special features, some of which are worthy of mention. For instance, at Altoona, Pa., it is the duty of the associated members to report to the secretary of the association any flagrant violation of commercial or financial

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integrity on the part of anyone having business relations with them. Furthermore, the solicitation of accounts of other members is prohibited, and any members having accounts of the same depositors shall have the right of ascertaining, each from the other, the extent and character of the loans made to such depositor. It is also provided that when a depositor of any member bank applies to another member for a loan, the member so applied to shall have the right to ascertain from the applicant's bank whether the loan had been previously offered there and, if refused, the reason for refusal.

At Philadelphia, Pa., Chester, Pa., and Wilmington, Del., it is provided that the associated banks shall report at once to each other the names of individuals, firms, or corporations whose accounts have been closed on account of overdrawing, depositing worthless checks, or otherwise defrauding them.

The associated banks of Minneapolis, by special agreement, but not by constitutional provision, have appointed an advertising committee, of which the manager of the clearing house is the chairman, to which is submitted all general schemes of advertising. The schemes are submitted in writing to the committee by the solicitor and action taken thereon. Many of these propositions are rejected, and what is known as clearing-house advertising appears only in the best mediums. The claim is made that this concerted action serves to secure much better rates and does not preclude any bank from placing advertisements in any other direction it desires. Chattanooga, Tenn., and Fort Wayne, Ind., also have made pro-

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vision regulating the placing of advertisements by their member banks. The regulations of the Portland (Me.) Association state that no member shall, by advertisement, circular letter, or publication, reflect unfavorably upon the responsibility of another member.

The constitution of the Rochester Clearing House Association provides that members are prohibited from offering a higher rate of interest to induce a customer to change his account from one bank to another or as an offset against collection charges.

At Seattle, Wash., a uniform discount rate on Canadian currency has been agreed upon, as follows: For the first \$100, one-half of 1 per cent; on any sum in excess of \$100, one-eighth of 1 per cent.

CHAPTER IV.

POSSIBLE DEVELOPMENTS OF THE CLEARING-HOUSE SYSTEM.

NEW FUNCTIONS TO BE EXERCISED—COUNTRY CHECKS—
TRANSFER OF CURRENCY FROM POINT TO POINT—POS-
SIBLE USE OF GOLD CERTIFICATES—SPECIAL EXAM-
INERS—SETTLEMENT OF BALANCES—ADVANTAGES OF
THE CASH BASIS—CLEARING-HOUSE DEPOSITORIES—THE
USE OF DEPOSITORY CERTIFICATES.

The clearing-house system is becoming a definitely recognized power in the financial methods of the United States. It is as yet in its infancy, and the powers that the various clearing houses possess are capable of development and expansion to an indefinite degree. The clearing house, which was begun simply as a labor-saving device, has united the banking interests in various communities in closer bonds of sympathy and union and has developed into a marvelous instrumentality for the protection of the community from the evil effects of panics and of bad banking. Clearing houses are gradually becoming a welding force that ultimately will bring to the banking business of this country the centralization which it so greatly needs. In the course of time rates for money in the United States will become more and more on a par with those prevailing in European money centers, and then the clearing houses

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of the various financial centers of this country will be obliged to undertake functions which as yet they have only discussed.

As money rates decrease losses from bad debts must be brought to a minimum, and the question of a central agency, which shall disseminate information regarding paper outstanding among the banks, must and will receive the attention it deserves.

As before stated, the payment of uniform rates of interest on bank deposits has already been taken up by many of the associations in this country, with the result that fair and equitable rates have been agreed upon to be paid for balances. The time is near at hand when all the banks that are members of clearing houses will be obliged to sink their differences and by agreement regulate, monthly or quarterly, the rate of interest to be paid, the rate to be subject to change according to the varying conditions of the money market.

More careful supervision over the establishment of new institutions will be necessary, and the regulations regarding nonmembers clearing through members will also receive closer attention.

The question of collecting country checks is now being regulated in many clearing houses—a matter which is specially treated in one of the chapters of this book—and the time is not far distant when this subject will receive the consideration from all the clearing houses to which it is entitled.

The question of shipping currency by express from one clearing house to another will, in time, be effectively

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dealt with. By the cooperation of the various associations it is conceivable that the scope of usefulness of the gold certificates issued by the various assistant treasurers of the United States, payable to any member of a given clearing house in the city in which the subtreasury issuing the same is located, which is now confined to indorsement and use in the payment of clearing-house balances in the city of issue, could be enlarged so that the certificates could be used in the liquidation of clearing-house balances in any city in which there is a subtreasury, or be sent through the mails at small rates to the sending bank, thereby becoming a safe medium of exchange between large centers, minimizing loss and saving the transportation of great sums of money. The Government might make a small charge for their redemption if it redeemed them in any city other than the one of issue.

It is significant of the ever-widening scope of clearing-house supervision and usefulness that several associations have in the past few years, after giving careful consideration to the subject, appointed special bank examiners, assisted, where necessary, by trained experts under rigid regulation and ready to go to work at a moment's notice. This departure has been deemed of sufficient importance to warrant a complete explanation of the conditions under which these examiners operate, and a special chapter is, therefore, devoted to it.

The settlement of balances is a matter which should be most carefully considered by the banking and business community, for the proper management of settlements will do a great deal toward enhancing the prosperity of

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the community. Bankers some time plead for a more elastic currency, but what is needed is more elasticity in the assets of the banks. What is wanted are assets that are readily converted into cash in times of panic, and which will pay depositors as well as permit new loans. In such times banks need expansion in the right direction, and not contraction. Cash settlements in all the clearing houses of the United States would be conducive to better banking, for, under this rule, the clearing-house banks would be obliged to keep themselves prepared at all times to meet large drafts upon them through the clearings. On the other hand, when clearings are settled by drafts upon financial centers, if the banks are not prepared for emergencies, they borrow from the institutions in those centers, and sometimes thereby expand themselves beyond prudent limits.

Bank officers often loan money to manufacturing corporations, which invest the same in plant, and are for this reason unable to meet their notes when due. Such loans become fixed assets of the bank, and are not available in times of financial stringency. The banks thereby become, to a certain extent, stockholders in the corporations. If the banks compel the payment of such loans in times of trouble, they thereby restrict the operations of the manufacturing concerns, throw men out of employment, and thus disarrange the entire industrial system of the community.

Banks are often led to invest their money in unavailable assets, simply because they feel that they will not be called upon to pay out any large amount of cash, either

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to their depositors direct, or through the clearing house. Consequently, the settlement of balances in anything but cash, or its equivalent, is liable at times to affect the whole economic condition of the community. If a careful study were to be made of the most prosperous of our interior cities it would be found that the banks in these cities settle their clearing-house balances on a cash basis.

Cash settlements at the clearing houses of interior cities would compel the banks to keep more money in their vaults. This would enable them more readily to meet the requirements of their customers. The need of outside assistance would be in a measure removed, and thereby all the financial institutions of the country would be kept upon a more even basis.

Some large clearing houses would find it advantageous to provide depositories in which currency of all denominations could be deposited in vaults, and certificates issued therefor that could be used in the settlement of balances. Then, during the crop-moving periods and at other times when there is a demand for small bills, they could be supplied from the clearing-house vaults. By such an arrangement the banks would not be obliged, as has often been the case, to give up one form of money which they desire to keep for the sake of procuring another form, and therefore they would be able to work to a greater or lesser extent independently of the sub-treasuries.

The New York and Boston clearing house associations have recently made provision for their members to deposit currency, as suggested above, taking clearing-

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house currency certificates therefor, which are limited in their use to the payment of balances in the clearing house, the same as clearing-house certificates for gold, and the idea has worked out very successfully. In view of the success of the idea in these cities, it seems very probable that some of the other large clearing houses will take the matter under advisement.

These and many other matters might be taken up by clearing houses and brought to the same degree of perfection as the loan certificate, an instrumentality that has been of inestimable value to the business world.

CHAPTER V.

THE ADMINISTRATION OF CLEARING HOUSES.

LIST OF OFFICIALS—DUTIES OF OFFICERS—COMMITTEES— ANNUAL MEETINGS.

The government of a clearing-house association in the United States is, theoretically, vested in a president, vice-president, secretary, treasurer, manager, and a clearing-house committee, sometimes termed "committee of management" or "executive committee." Not every association, however, is as completely officered as this; in fact, there are many associations that do not have the full list of officials named. A president, a manager, and an executive committee, however, are found in the organization of nearly every clearing-house association, for these functionaries are practically indispensable. The other officials mentioned are lacking in various associations, especially in those located in smaller cities, their duties being performed by some of the other officers.

It is the duty of the president to preside at all the meetings of the association. As a rule, he has power to call special meetings whenever he may deem it advisable, and must do so upon the request of a specified number of the members. He exercises a general supervision over clearing-house affairs, and performs the duties usually devolving upon an executive officer. In many cases he is *ex officio* chairman of the clearing-house committee and of all standing committees. He is elected annually, with few exceptions, and serves without compensation.

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The vice-president performs the duties of the president in the latter's absence. The duties of secretary and treasurer are frequently performed by the manager. The secretary keeps the record of the proceedings of the meetings of the association, and performs all the duties usually pertaining to that office.

The treasurer must account for the funds intrusted to his keeping, and must pay out the same upon the written order of the president, countersigned by the manager, or if the latter be at the same time treasurer of the association, then upon the written order of the clearing-house committee, or upon any other authority that the association may designate.

The manager is either elected by the association or appointed by the executive committee, to serve, as a rule, one year, although almost invariably he is reelected from year to year for an indefinite period. In some of the large cities a heavy bond, with sureties, is required of the manager, varying in amount from \$10,000 to \$20,000, and in one or two instances the requirement is as high as \$50,000. In cities where no cash is used in the settlement of balances there is, of course, much less opportunity for fraud on the part of the manager, and hence in such cases, as a rule, no bond is demanded. In many of the smaller cities, where the manager's duties and responsibilities are light, and where he is regularly employed in some other capacity, his services are not infrequently gratuitous.

The manager has immediate charge of all business at the clearing house, subject to the control of the clearing-

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house committee. The employees and the settling clerks and messengers from the banks, while at the clearing house, are under his immediate direction. He imposes and collects fines for violations of the rules of the association, has supervision of all the records of clearances and settlements, and sees that the clearing house and the property connected therewith are kept in order. He makes such annual reports and performs such other duties as may be required of him.

The clearing-house committee (also called the "committee of management" and "executive committee") is usually composed of from three to five members, chosen from the most capable and experienced bankers in the association. In one case which has come to notice the membership of this committee consists of but two members, while it sometimes exceeds five, as at Philadelphia and Pittsburg, where there are six members besides the president, who is ex officio a member, and at St. Joseph, where each bank has a representative on the clearing-house committee, the number of bank members at the present writing being eight, thus making eight members of the committee.

The clearing-house committee is elected annually, and is by far the most important of all the committees. In it is vested almost absolute power, the direction of practically the whole machinery of the clearing house resting in its hands. It is empowered by the association to procure suitable rooms for the clearing house, to provide proper books, stationery, fuel, furniture, and whatever else may be necessary for the convenient transaction of business; to appoint a manager, except where this power is directly

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exercised by the association, and generally to supervise affairs. It draws on members for their share of the expenses, fixes the salaries of the clerks in the clearing house, and has the power to remove the same, and the manager as well, whenever it may deem such action to be for the best interest of the association.

Not infrequently the clearing-house committee is authorized to examine a member, whenever it may seem necessary to it to do so, or whenever requested to do so by a specified number of other members, and, in case the member's condition justifies it, to demand sufficient securities for the protection of its balances resulting from the exchanges of the clearing house. It also has power, whenever it may seem necessary for the protection of the other banks, to suspend a member from the association until the latter takes action upon it.

The clearing-house committee, in most cases, holds regular meetings monthly, or oftener. Stated examinations of funds and securities are often required, as, for example, at San Francisco, where the committee must examine, at least quarterly, all securities and deposits of the association in its charge.

In addition to the clearing-house committee, there is frequently a conference committee, a nominating committee, an arbitration committee, a committee on admissions, an exchange committee, and, in special emergencies, a loan committee. No one association has all of these committees, but the New York Clearing House has all but the exchange committee. Most clearing houses are too small and their duties too simple to require so ex-

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tensive a division of powers; hence, as a rule, we find only one or two committees at most, in addition to the clearing-house committee.

The conference committee is elected annually to serve in special emergencies, and its duties consist in acting in conjunction with the clearing-house committee whenever the suspension of a member becomes a question of expediency. There must be at least a majority of each committee present to suspend a member, and a unanimous vote is necessary to carry. In case of a suspension the clearing-house committee must forthwith call a general meeting of the association to take the matter into consideration.

The nominating committee is elected annually, and is charged with the duty of presenting to the association at each annual meeting the names of candidates for president and secretary and for membership upon the various committees.

The arbitration committee is elected by ballot at each annual meeting. Its duty is to decide all disputes that may be submitted to it by both parties thereto, a member of the association being one of them. In associations where no arbitration committee exists its function is usually performed by the clearing-house committee.

The committee on admissions is also elected by ballot annually, and the clearing-house committee refers to it for examination all applications for membership in the association.

Where an association has an exchange committee, the committee is elected each year. It is authorized and

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required from time to time to prepare schedules of rates of exchange on out-of-town items, including among them those taken as cash received for collection, or held as security for loans, or that might be discounted subject to collection.

The clearing-house association holds an annual meeting for the purpose of electing officers and committees and for the transaction of other business. The quorum is usually fixed at a majority of all the associated banks. In some instances, however, it is fixed at two-thirds, and in a few cases even as low as one-third, of all the members. Sometimes a specified number is designated as constituting a quorum. Each bank is expected to be represented at the annual meeting by one or more of the officers, but usually is allowed only one vote. An exception to this rule is the association at Worcester, Mass., where two votes are allowed. For failure to be represented at an annual meeting a fine of from \$2 to \$10 is generally imposed. It is the duty of the association to fix the salary of the manager, admit banks to membership, and, when occasion demands, to suspend or expel members. In some of the large cities the associations receive in special trust, and issue certificates for, such United States gold coin as any of the associated banks may deposit for safe keeping for clearing-house purposes.

CHAPTER VI.

THE SETTLEMENT OF CLEARING-HOUSE BALANCES.

RESULTS ACCOMPLISHED BY SETTLEMENTS — RATIO OF BALANCES TO CLEARINGS — SETTLEMENTS WITH MONEY—CLEARING-HOUSE SETTLEMENTS IN CANADA—MONEY IN LABELED PACKAGES — OBJECTIONS TO SILVER—METHODS OF SETTLING BALANCES WITHOUT MONEY — ADVANTAGES OF THE MANAGER'S CHECK OVER SETTLEMENTS IN CASH.

The exchange of items between the banks accomplishes two results: First, it places at the proper banks for payment the items to be exchanged which the several banks hold; and, second, it determines the difference between the amount of the items held by each bank against all the others and the amount held by all the other banks against each individual bank. The difference constitutes the balance which is to be settled.

A bank can not know whether its exchanges at the clearing house will bring it out a debtor or a creditor until the settling clerk returns from the clearing house. It is a very rare occurrence for a complete offset to take place in any bank's exchanges; that is, for the amounts sent to the clearing house to exactly equal the amounts received, in which case, of course, there would be no balance. Each bank expects a difference one way or the other, ranging from a few cents to a very large amount. In a great city a bank may be a creditor one day to the extent of several hundreds of thousands of dollars and

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the next day a debtor to a similar amount. It is of the utmost importance, therefore, that each bank should be prepared to meet any balance which may appear against it at the clearing house.

The ratio of balances to clearings depends partly upon the number of banks, but much more upon the amount and character of their business and upon their relations one to another. This is illustrated by figures which have just been collected, covering the transactions for the year 1908. At Pittsburg, with 20 members and 128 nonmembers clearing through members, the balances were 16.5 per cent of the clearings; at Buffalo, with 11 members and 7 nonmembers, 12 per cent; at Chicago, with 20 members and 40 nonmembers clearing through members, 7.5 per cent; at Philadelphia, with 31 members and 1 nonmember, 11.5 per cent; at St. Louis, with 17 members and 35 nonmembers, 9.3 per cent; while in New York, during the fifty-four years of its existence, the percentage of balances to clearings have been only 4.64 per cent, notwithstanding the operation of the United States assistant treasurer, who almost always has a heavy debit balance.

The more nearly the banks stand on an equality with one another, the more nearly will their transactions approach a complete offset, which, of course, would leave no balance to settle.

The methods of settlement of clearing-house balances may be divided in a general way into two classes: First, settlements with money; and, second, settlements without money.

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A clearing house acts merely as the agent of the banks in the payment of the balances. It pays to the creditor banks the money it receives from the debtor banks. As soon as the result of the exchanges is known the debtor banks may begin the payment of their balances, all of which may be paid in before the expiration of a specified time, usually two or three hours after the exchanges have been completed. Failure on the part of any member to meet its requirements promptly would subject it to a fine.

Any kind of United States money is acceptable in most of the small clearing houses; but in a majority of the large ones certain kinds of money are not acceptable. The following are illustrative examples: At Baltimore gold coin, greenbacks, and certificates, redeemable in coin, are used, and silver is accepted only for fractional parts of thousands; at Buffalo, United States treasury certificates, United States legal-tender notes, national-bank notes, gold and silver certificates, and gold coin are used; at Milwaukee, gold coin and currency; at St. Paul, all forms of currency except silver coins; and at San Francisco, Los Angeles, Cal., and Portland, Oreg., gold coin is used exclusively.

About 40 per cent of the clearing houses of the United States settle their balances either in cash or by manager's check payable in cash. In Canada, however, all the clearing houses, except that at Hamilton, settle in government legal-tender notes. Settlements in Hamilton are made by drafts upon the head offices or agents of the respective banks, on Montreal, in favor of the clearing

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bank, which gives its own drafts on Montreal to the banks in credit.

Some clearing houses, especially the larger ones, require that money, when paid in by the banks, shall be assorted and put up in packages, each package to contain bills of a given kind and denomination, and when the balances are sufficient, to consist of specified amounts, usually \$1,000, \$5,000, and \$10,000, respectively. For instance, at Milwaukee, all currency paid to the clearing house, when the amounts are sufficient, must be put up in packages of \$5,000 or \$10,000 each. The inside parcels of the packages must bear the number of the bank putting up the same, with the date thereon. Such packages must be securely bound with twine or tape, with a wide paper band around the center, fastened with wax, bearing the seal of the member putting them up, and the date of sealing. No notes of a less denomination than \$5 (except to make change) or over \$1,000 can be paid in. Likewise all gold coin must be put up in strong canvas bags, of \$5,000 each, and such bags must have suitable labels bearing the name of the sealing member, amount of contents, and date of sealing. For all gold coin or currency paid in, in amounts less than \$5,000, the value of the parcel or package must be guaranteed by the bank (whose number it bears) to the bank breaking the package for twenty-four hours after receiving it, but in no case can claims be made after a package has been paid to any party not a member of the association.

Silver coin is not excluded from settlements in clearing houses in the United States because of any prejudice

BUFFALO CLEARING-HOUSE.

Buffalo, N. Y., _____ 190____

Received of BUFFALO CLEARING-HOUSE,

Dollars, \$ _____

in settlement of balance due No. _____ this day.

CASHIER

FORM OF RECEIPT USED BY BUFFALO CLEARING-HOUSE GIVEN BY CREDITOR BANKS ON RECEIPT OF BALANCES.

AUTHORIZED

MANAGER.

Clearing - House Methods

against it as money, but because, owing to the enormous amount of clearing-house transactions, its bulk would render it too cumbersome and inconvenient for handling. For the same reason it is not so desirable as other forms of money in large transactions of any kind.

A receipt is given at the clearing house to each debtor bank as soon as its balance is paid. There is presented herewith a reproduction of the form used at Buffalo.

This receipt is filled out by the clearing-house clerk showing the amount due from the debtor bank to the clearing house. Its authenticity is established by the signature of the manager at the top. This receipt is taken away by the debtor bank's messenger, who later returns with the necessary funds. The manager then signs the receipt in the usual place, and in this condition it becomes a voucher to the debtor bank for the payment it has made.

The clearing-house clerks of these banks have already carried back a receipt, of which a copy is given herewith, that is likewise "viséed" by the manager at the top. This receipt is then signed by the cashier of the creditor bank and sent at the hands of two trusted messengers, who receive the funds from the clearing-house manager. This receipt in turn is kept by the clearing house as its voucher for the payment made. A receipt is sometimes written by the clerk receiving the balance in a book kept by the manager for that purpose, but a more common method is one similar to that described as given by the bank.

There are no less than five different methods of settling balances, in whole or in part, without the use of money

BUFFALO CLEARING HOUSE.

Buffalo, N. Y. _____ 100

Received from No. _____ \$ _____

Dollars,

in settlement of balance due Clearing House this day.

Manager.

FORM OF RECEIPT GIVEN BY BUFFALO CLEARING-HOUSE TO DEBTOR BANKS ON PAYMENT OF BALANCES.

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at the clearing house. They are (1) by manager's check on debtor banks given to creditor banks; (2) by borrowing and loaning balances without interest; (3) by borrowing and loaning balances with interest; (4) by the use of one or more of four forms of certificates, viz, gold and currency depository certificates, United States assistant treasurer certificates, and clearing-house loan certificates; and (5) by draft on another city.

When money is not used in the adjustment of balances at the clearing house, one of the most common methods of settlement is by manager's check on debtor banks in favor of creditor banks. In such cases the creditor banks send clerks to the clearing house to receive the manager's checks, which may be cashed by the debtor banks, exchanged for cashier's checks or exchange on another city, or sent through the clearings on another day. Thus, at New Orleans, La., Jacksonville, Fla., Kansas City, Mo., and other points, manager's checks are used and are cashed on the afternoon of the same day they are issued, while at Cincinnati, Ohio, Fort Wayne, Ind., and Dayton, Ohio, banks exercise the option of collecting their checks the same day or of sending them through the exchanges on the day following. At Danville, Ill., the balances are settled direct between creditor and debtor banks, and not through the clearing house, as is customary.

The liability of the clearing house for manager's checks usually ceases at 3 o'clock on the day of issue, so that when they are carried over it is done at the risk of the holder. Where banks contribute to the expense of the clearing house in proportion to their average daily clear-

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ings for a given time, they often prefer to collect on the day of issue rather than increase their exchanges, and thus their expenses, by having the manager's check cleared.

With all its various disadvantages there is one important advantage of the manager's check over settlements in cash at the clearing house: By its use only one transfer of cash is necessary in making settlements, and thus the risk is greatly diminished.

The second mode of settlement, other than on a cash basis, is by borrowing and loaning balances without interest. At Chicago and Pittsburg this method is practiced as a matter of convenience to the several members. After the exchanges have been made and the balances determined, a certain length of time is devoted to this transfer.

The third method is that of borrowing and loaning balances upon interest, as practiced at Boston.

The fourth method is that of employing some form of certificate. Many of the large clearing houses provide for a depository to receive in special trust such United States gold coin as any of the banks belonging to the association may voluntarily deposit with it for safe-keeping, upon which certificates may be issued, to be used in the settlement of clearing-house balances. Such certificates are usually issued in denominations of \$5,000 and \$10,000, and are negotiable only among the associated banks. Many of the clearing houses impose a fine for their transfer to any other party than a member of the association.

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Coin certificates were devised by F. W. Edmunds, of New York, and came into use about 1857. The Bank of America first acted as a depository, but after the beginning of the greenback epoch the associated banks chose the United States subtreasury as such depository for both gold and currency. When the new clearing house in Cedar street was occupied, the gold deposits were transferred to the magnificent vaults with which it is provided, and these at the present time hold a very heavy deposit of gold, as well as a very large amount of currency, against which has been issued clearing-house certificates as before mentioned. The associations in practically all of the large cities of the United States now use these gold depository certificates in the settlement of clearing-house balances.

Clearing-house loan certificates are issued only in emergencies, as explained in the chapter devoted to that subject. The period during which balances are settled by such instruments lasts usually only three or four months, or until the financial disturbance which called them forth has subsided.

The fifth method is by draft on some other city. In some places the option is given of settling in cash or by draft, as at Austin, Tex.; Charleston, S. C.; Frederick, Md.; Jacksonville, Fla.; Kansas City, Mo.; New Orleans, La.; Rochester, N. Y.; and Saginaw, Mich. In others settlements are made exclusively by drafts on another city. Among these are Syracuse, N. Y.; Worcester, Mass.; Fall River, Mass.; Fremont, Ohio; Hartford, Conn.; Holyoke and Lowell, Mass.; and Binghamton, N. Y. Sometimes

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foreign drafts are used in payments of equal thousands only, as at Wilmington, Del., and Chester, Pa.

Generally speaking, about 40 per cent of the clearing houses of the United States use drafts on other cities in paying their balances. About 30 per cent settle by manager's check, and about 25 per cent settle by cash alone, the remaining 5 per cent settling by a combination of two or more of the foregoing methods.

Clearing houses located in New England settle, as a rule, with drafts on Boston or New York, or both. Clearing houses in the vicinity of Philadelphia usually settle with drafts on that city or on New York, and those located in that part of the country lying east of the Mississippi River settle more or less by draft on New York or Chicago. Settlement is also sometimes made by draft on some of the larger cities, such as Baltimore, Washington, Savannah, Kansas City, Detroit, Omaha, and San Francisco.

CHAPTER VII.

CLEARING-HOUSE EXCHANGES.

LOCATION OF CLEARING HOUSES—ARRANGEMENT OF FURNITURE—HOUR OF MAKING EXCHANGES—CLEARING MATTER—CHARACTER OF INDORSEMENTS—MESSENGERS AND SETTLING CLERKS—CONDUCTING THE EXCHANGES—DETERMINING BALANCES—TWO CLEARINGS A DAY.

No city has more than one bank clearing house. The location of the clearing house is always as near the center of the banking district as possible. It is especially important that this should be so in a large city, where the banks are numerous and often scattered over a considerable area. None of the associations, except the one at New York, owns its clearing-house property. Instead, the various organizations occupy rented quarters, usually in one of the banks belonging to the association, and these they have equipped with the necessary furniture, stationery, and desks for the various members.

The desks are sometimes arranged in straight rows, and sometimes in elliptical curves, and in a few cases they are placed like the desks in a schoolroom. It is not uncommon in small places for the clerks to meet and make their exchanges around a table, and occasionally the same rule prevails in large centers.

Many ingenious contrivances are wrought out in some of the exchange rooms, as well, also, as unique features of decoration. For example, on the walls of the room

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at Buffalo is an ideal conception of the leading clearing houses of the country, with New York in the center and the large cities grouped around it. At Pittsburg the arrangement of the desks, lights, and manager's quarters is unexcelled for beauty and artistic taste, except it be at New York. The manager's desk is connected by a pneumatic tube with the bank below, through which small sums of money are blown when needed to make change in the settlement of balances. At Providence there are two rows of desks, with that of the manager at the end. Each bank is represented by a single clerk. Immediately upon his arrival at the clearing house he deposits with the manager's assistant a credit ticket, and then proceeds to deposit his items in stationary boxes, located on the desks of the members. Each clerk has a key to his own box, and after distributing his checks, he takes his place on the inside of the row of desks and there performs the duties of a settling clerk.

Many of the smaller clearing houses do not rent permanent quarters, but instead the banks belonging to the association act as clearing agents in rotation, the cashier, or some other official of the bank where the clearings for the time being are made, acting as manager. At Hastings, Nebr., for instance, the banks alternate weekly; at Jacksonville, Ill., monthly; and at Bay City, Mich., once in two months. At Lowell, Mass., a clearing bank is chosen at each annual meeting of the association.

Each clearing house determines for itself the time when its daily exchanges shall be made, and as practically the only criterion in selecting an hour is the con-

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venience of the several members, it is not surprising that there is a wide diversity among associations in this regard. From 8.30 o'clock in the morning, when the exchanges are made at New Orleans, La., the time varies to 3.15 o'clock in the afternoon, when the exchanges are made at Chattanooga, Tenn. All hours between these are occupied, most of the associations, however, clearing before 12 o'clock. On Saturdays, in a majority of cases, clearings are made at an earlier hour than on other days in order to enable the banks to close their business and take advantage of the short day.

When the exchanges take place at 10 o'clock, or earlier, it is customary for the members to clear the items received in the morning mails, or, in some cases, to include only the larger items so received, and to send those received in the afternoon and the smaller amounts, if any, left over from the morning through the exchanges on the following day. But when the exchanges take place as late as 3 o'clock, most of the items received are cleared the same day.

The rules regulating the kinds of matter to be cleared are by no means uniform. A number of organizations specify in their articles of association what shall be considered proper clearing matter. Of such rules, the following, from the by-laws of a prominent western clearing house, is one of the most common:

Proper matter for clearing shall consist of checks, drafts, manager's certificates, certificates of deposit, demand or matured, and any other matter specially agreed upon, until notice is given to the contrary, and any bank clearing paper not proper shall be fined.

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In addition to the regular checks, express money orders are cleared at Des Moines, Iowa, through a bank designated by the express company as its depository.

At Fargo, N. Dak., the unusual custom prevails of sometimes clearing, in addition to the checks on city banks, items for out-of-town correspondents. For instance, Bank A sends through the exchanges to the other members the items which it has received on their correspondents, and the other members in turn clear the items which they hold on A's correspondents.

All checks, notes, acceptances, and other items received by any members at New Haven, Conn., against an associate member are proper matter for clearing. Any member at New Orleans, La., voluntarily accepting a cashier's check in settlement of a clearing-house balance is not allowed to pass the check through the clearings, but must collect it direct from the member who issued it.

Notes and drafts are not sent through the exchanges at Rockford, Ill., nor are notes and bills of exchange at St. Paul. As a rule, only regular checks are included in the exchanges at Savannah, Ga., and never drafts, notes, and bills of exchange. Usually notes, acceptances, and bills of exchange are certified at Scranton, Pa., on the morning of the day they are sent through the clearing house. At Waco, Tex., only checks and manager's certificates, certified, used in settlement of balances at the clearing house, are passed through the exchanges.

In the exchanges at Washington, D. C., all checks may be cleared and all sight drafts, certificates of deposit, matured acceptances payable at the bank, and any

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other matter certified or specially agreed upon, until notice is given to the contrary; but promissory notes can not pass through the exchanges unless certified or authorized by the member bank where the same are payable. The rule at Youngstown, Ohio, is that only items which on their face are unconditional demands upon a bank are payable through the clearing house.

The question of restricted indorsements has been widely discussed in recent years, and as a measure of self-protection most of the large clearing houses have adopted resolutions declaring that items bearing restricted indorsements, such as "For collection," "For account of," "For credit of," and "For deposit," shall be considered as improper matter for clearing unless specially guaranteed by the clearing bank. Items indorsed in blank, or "Pay to the order of ———," or "Pay to ——— or order," are not regarded as bearing restricted indorsements.

Each bank, before sending its exchanges through the clearing house, is required to indorse them with its number and the words "Received payment through the ——— clearing house," or such other indorsement as the clearing-house committee or the association may determine upon. Evidently it would require a prodigious amount of labor to write the indorsements upon the items, and, indeed, it would be a physical impossibility in many of the banks of the large cities to do so. Hence an official stamp is used, and the same is usually accepted as a guaranty of all previous indorsements, whether written or stamped. It is not construed as supplying or guaranteeing to supply a missing indorsement.

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The number of messengers required to transport the exchanges to and from the clearing house varies widely in different cities. When the business is light, as in some of the smaller cities, one person acts as both messenger and settling clerk, while in some of the larger cities the exchanges of some of the banks are so heavy that four or five messengers are necessary to transport them. Each bank, in addition, is represented by one settling clerk, who, as a rule, is a young man, quick and accurate in arithmetical calculations.

Checks are taken to the clearing house bound together with rubber bands or inclosed in large envelopes, the items that go to each of the members being kept separate. If the bulk is not too great, they are often carried in the hand, but it is customary in the large cities to transport them in leather bags or cases.

The usual rule is that immediately upon his arrival at the clearing house the settling clerk delivers to the manager, or the assistant manager, a ticket containing the amount of the items brought from his bank. An exception to this rule, in a large clearing house, is found at Baltimore, where the clerks, instead of delivering tickets, call off the amounts to the manager, while he enters them upon his proof sheet. An important exception is also found at Cincinnati, where no entries of any kind are made by the manager upon his settling sheet until the proof has been made. This done, the clerks report their credit and debit balances, and these alone are entered.

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Before the exchanges begin at West Superior, Wis., there is a roll call of clerks. The only advantage in this unusual procedure would be the detection of the absence of a member, and as this must necessarily appear before the exchanges are completed, it would seem to be an unnecessary expenditure of time.

At South Bend, Ind., a half hour before clearing time, the manager telephones to each of the members, of which there are eight, and requests from them the total of their credits for the day and the amount which they hold on each of the other banks. The figures so secured are entered upon special sheets, and the debit and credit balances are computed. The debits are then arbitrarily distributed to credits, and the debtor banks are informed by telephone how much they must pay and to whom they must pay it. When, therefore, the messengers come to the clearing house, they have only to exchange their checks and pay envelopes and return.

A fine is usually imposed upon a member for being late at the clearings, and if the representative fails to appear before a specified time, the member is excluded from the exchanges of the day, and must make its clearings at the counters of the other banks. The fines commonly vary from \$1 to \$5, but at Chicago, Milwaukee, and Minneapolis they are unusually high. For the first five minutes or part thereof, the fine in those cities is \$3; for the second five minutes or part thereof, \$10; and over ten minutes late, \$25.

Two methods of delivering items in the exchange room are in vogue. In the one case they are delivered

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by all the clerks simultaneously; in the other by each clerk as soon as he arrives at the clearing room; but the exchanges must all be made before a specified time.

When the clerks begin the exchanges at the same time they all start upon the signal from the manager, with their items on their arms or in bags or cases strapped over the back, and proceed in the same direction, passing along the desks until they have deposited all their paper. In the large cities, where the clerks are numerous, order and method are necessary in delivery to prevent confusion and to save time. But in small cities, where the clerks usually deliver their items as soon as they arrive, more liberty is allowed in personal conduct; also by this method an opportunity is afforded to the less proficient clerks to arrive early and list their items as fast as they are delivered to them from the other banks.

Where the exchanges are made around a table, without any network or division of any kind between the clerks, it sometimes happens that bundles of items, thrown carelessly on the table, are entered by the wrong clerk. To prevent errors of this character, at Cincinnati, four different colors are used for slips containing lists of items and attached to the exterior of the bundles, all the slips on the bundles going to a particular bank being the same color. Thus, clerks representing members Nos. 1, 2, 3, and 4, sitting alongside of one another at the table, have different colored slips, and the same colors are used, correspondingly, by members Nos. 5, 6, 7, and 8, and so on around the table. Also the debit and credit slips brought by the settling clerks are of different colors.

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The speed with which the business of a clearing house is transacted seems almost incredible. The actual time required to make the exchanges varies from one and one-half minutes to ten minutes. When the exchanges are made simultaneously, the time varies, as a rule, in proportion to the number of members. In view of the shortness of time required to make its exchanges, the New York Clearing House affords, perhaps, the best example in existence of the success of modern business methods as compared with the old way of doing things. The clearances exceed on the average \$300,000,000, and yet this enormous amount of paper is exchanged between the banks in ten minutes, and often in less time.

When the clearings have been made, the next step is for each settling clerk to determine the amount of the balance of his own bank, which is found by taking the difference between the amount brought to the clearing house and the amount taken away. There is practically no exception to this rule. A certain amount of time is allowed for the proof, and for each error remaining undiscovered at the expiration of the allotted time a fine is usually imposed. At the end of a certain time thereafter it may be doubled, and still later it is often quadrupled.

In some cases the settling clerks do not remain until the proof is made, but leave for their respective banks as soon as they make out their tickets for the amounts brought, amounts received, and balances. If the manager, or his assistant in charge of the proof sheet, finds, after he has made all the entries and additions, that his work does not prove, he first determines whether the error was made by

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one of the settling clerks or by himself. If by one of the clerks, it is usually discovered in a short time at the bank, whereupon the latter reports the error to the manager at the clearing house either by messenger or by telephone. If the bank fails to report the error in due time, the manager takes the debit and credit slips and finds it.

At Cincinnati no fine is imposed upon a clerk or his bank for an error in a slip if it is discovered and reported promptly to the manager. At Louisville, however, a fine of \$1 is imposed, without regard to time limitations.

All that has been said thus far applies to those clearing houses that clear only once a day. But there are in the United States several clearing houses that make practically two clearings a day, in which latter class are Fall River, Mass., Detroit, Mich., and Los Angeles, Cal.

At Fall River, Mass., an amendment was made to the constitution May 27, 1895, as follows:

The cashier of the clearing house shall be the manager of the clearing house, and the settling clerks shall be under his direction while at the clearing house. An exchange of checks and other items for clearing shall be made daily at 10.30 o'clock a. m. and the final clearing at 1.30 p. m. The debtor members shall pay to the manager of the clearing house the balances against them by 2 o'clock p. m., and on or before 2.15 o'clock p. m. the creditor members shall receive the respective balances due them.

The first clearing at Fall River is made at 10.30 o'clock in order that the bookkeepers at the banks may have most of the checks for entry as soon as possible. This is simply an exchange of checks, notes, and drafts payable at the bank, and they are thus placed at the bank where they are payable before noon. The footings of this clearing are carried on the various slips to the second clearing at 1.30 o'clock, when balances are settled. This has been the custom ever since the inauguration of the clearing house.

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At Detroit the preliminary clearing takes place at 10.30 o'clock a. m. (on Saturdays at 9.30 o'clock a. m.). At this clearing principally checks are exchanged. Later, at 2.30 o'clock in the afternoon, the final exchange takes place, which includes the exchangeable matter received up to that time. The Los Angeles clearing-house banks meet preliminarily at 9.15 o'clock in the morning and make their final clearings at 11.30 o'clock.

CHAPTER VIII.

CLEARING COUNTRY CHECKS.

THE GROWING USE OF CHECKS—THE DIFFICULTY OF COUNTRY CHECKS—REMEDIES PROPOSED—STATE AND NATIONAL CLEARING HOUSES—THE KANSAS CITY, MO., PLAN—THE ATLANTA, GA., PLAN.

The use of bank checks and drafts in business transactions in the United States is more extensive than in any other country, and the tendency to such use is constantly on the increase. So popular have checks and drafts become that the increase has more than kept pace with the increase in business, which means that the proportion of money in use to the volume of business transactions has been on the decline.

The introduction of the clearing-house system has greatly facilitated the use of substitutes for money by furnishing a much safer, more convenient, and more expeditious method among banks than previously existed of exchanging items drawn on each other and settling the balances resulting from the same. With but two exceptions, to be explained in another place, the exchanges passing through the clearing house are confined to items drawn upon members or upon nonmembers clearing through members. That is to say, checks and drafts received by a bank member of a clearing house in any

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city drawn upon another member of the same clearing house, from whatever source the checks may have been received, are liquidated through the clearing house; but checks and drafts received by a member of a clearing house drawn upon some bank located at a distance, and not a member, nor clearing through a member, are regarded as improper matter for clearing.

Now it is evident that a bank receives from its customers in the daily course of business checks drawn on banks in distant towns and cities, but before a bank can realize any return from such checks it must collect them. That is, it must send them to the banks upon which they are drawn, or to some near-by bank, which will act as its agent, for payment. There could be no objection on the part of the banks to such business methods if the customers depositing such items did not expect credit therefor until they were collected and if they were willing to pay for the trouble and expense of collection.

When A, who lives at a distance from a financial center, buys a bill of goods from B, living in the city, and sends a check drawn on his local bank for payment of the amount, he subjects some one to the expense of collecting the check, and, further, some one is out the use of the money until the collection has been made. B deposits the check in his bank in the city and expects immediate credit therefor, and the competition among the financial institutions in the larger cities is so keen that the bank does not stand upon its rights and insist that the check shall be held for collection and credited to B's account only when collected, but passes it to his credit at once,

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through fear that he will withdraw his account and deposit with some other bank that will extend that accommodation to him. This practice is quite general.

During the past few years great strides have been made by the clearing houses throughout the country in the matter of establishing uniform rates for the collection of country checks, and at the present time there are few associations in the United States that have not some sort of a schedule for this purpose, however crude it may be.

The question has been asked, "Why is it that bankers can not find a way out of this difficulty through a state or national clearing house? Since it is universally recognized that the clearing house has been a uniform success in all of the leading cities of the country, not only as a medium for the exchange of items, but also as a means of bringing about harmonious action among the banks on nearly all questions of mutual concern, why is not a national clearing house feasible?"

In bankers' conventions and in current bank literature, particularly in the last decade, many remedies have been proposed for the difficulty that must be met. In States where the bank associations are divided upon the group plan many have favored a clearing house for the banks of each group. Others have preferred a clearing house for the banks of all the groups of the State.

Some years ago it was proposed that a clearing house or collection agency should be established in New York City for all the banks east of Chicago. About the same time a scheme was set forth for the establishment of a clearing house at Chicago for all the country banks within

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a radius of 500 miles, and for all others that might desire to avail themselves of its facilities. But neither of these plans was carried into execution. However, several attempts have been put into practical operation to clear country collections, to two of which we shall give attention in this chapter, viz, that in operation at Kansas City, Mo., for handling cash items drawn on banks in the States of Missouri, Kansas, and Oklahoma, and the plan which has only recently become operative at Atlanta, Ga., to collect country checks on the State of Georgia.

The bankers of Kansas City, by cooperating through the medium of the clearing house, were enabled, some time since, to carry into execution a plan for clearing country collections in the States of Missouri, Kansas, and Oklahoma. This department (called the country collection department), as at present existing, is maintained by the Clearing House Association for the purpose of collecting such items payable outside of Kansas City as the clearing-house committee may deem it advisable to receive for that purpose. The manager of the clearing house, from time to time, informs the members of the association of points upon which the department is prepared to collect, and also of the cost to the department for making such collections, and all the members of the association are required to collect through the country collection department all items upon which such members would incur an exchange cost of 10 cents per \$100 or more, except items on points at which are located banks carrying deposit accounts with such members.

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Upon receipt of items from any member, the manager of the department issues a due bill to such member, payable in accordance with the regulations of the Clearing House Association, from time to time, usually on the fourth day after issue.

The expense of making these collections is met by each member paying the exact amount of exchange incurred in the handling of such items by the department for such member. Other expenses are apportioned among the members in ratio to the aggregate amount of items handled for the respective members by the department.

Along these same lines, although differing materially in the method of handling, an arrangement has been recently consummated in Atlanta, contemplating the clearing of cash items drawn on banks in the State of Georgia, and so far as it has been tried out has been declared eminently satisfactory.

The members of the clearing house handle this class of business the same as they do the city clearings, viz, a machine list of checks is retained by the banks and a proof list goes with the checks to the clearing house. Checks must be sent to the clearing house in the morning as early as possible, but in no case later than 10.30 o'clock, and the afternoon checks not later than one hour after closing time.

The clearing house issues a receipt covering all items deposited for collection, which receipt is payable at a later date, the exact time of which is determined by the length of time it takes to collect the items. In order to

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settle for these receipts, the "Foreign department of the clearing house" is a member of the clearing house, just as each of the banks are members, and the receipts held by the banks are listed against it on their due dates.

The clearing house, in turn, lists to the different banks such items as it receives drawn on them, and prorates such other checks as it receives in payment of collections. In order to settle each day in full for all outstanding receipts, the clearing house charges back to the banks their pro rata of the uncollected items. The receipt given therefor is payable the following day through the city clearing house, the same as other receipts for collections.

Of course the associations in each of these instances have been obliged to increase their clerical force, but as this increased expense falls upon the individual members, and they, in turn, are thereby enabled to reduce their working staff of clerks, as well as effect what amounts to a considerable saving in the course of a year in stationery, postage, and the cost of collection, they can well afford to pay the increased assessment to the association.

The plan which is in operation in Boston is a further instance, and will be found described in detail in another part of this volume.

CHAPTER IX.

TYPICAL JOURNEY OF A COUNTRY CHECK REMITTED FOR A CITY ACCOUNT.

THE SMALL AMOUNT OF WORK REQUIRED OF PAYER AND PAYEE—THE LARGE AMOUNT OF WORK REQUIRED OF THE BANK IN WHICH THE CHECK IS DEPOSITED AND ITS CORRESPONDENT—WHAT THE RECEIVING BANK DOES—WHAT ITS REGULAR CORRESPONDENT IN THE CITY NEAREST THE COUNTRY BANK IS REQUIRED TO DO—WHAT THE COUNTRY BANK HAS TO DO—AN ILLUSTRATIVE EXAMPLE.

By way of emphasizing the need of the reform that has taken place in the matter of collecting checks, a brief glance of the methods current in various directions, at the present time will be advantageous. A merchant in Massillon, Ohio, buys a bill of goods in New York amounting to \$250, and pays for the same with a check on his local bank. The New York jobber from whom the goods were bought makes the proper entries on his books for the check upon its receipt by him, and deposits the check with his (New York) bank. The receiving teller of the bank in which the check is deposited, after checking it off the deposit slip, enters it, by amount only, in his record of out-of-town checks.

Another clerk enters the check on a sheet headed with the depositor's name, stating date of deposit, place of

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payment, and amount, for the purpose of making the proper charge thereon. The slip is sent to the jobber advising him of the charge. The charge itself is made through a book known as the "Debits of exchange," from which the bookkeeper posts the charge.

A representative of the corresponding department of the bank receipts for the item on the receiving teller's record, after satisfying himself that the amount has been properly listed thereon. Another representative sorts the check with others on a sorting table, according to the place of payment, and then stamps the bank's indorsement on the back of the check.

The check is then laid on the collection inclosure sheet for transmittal to a Cleveland bank, since all Massillon items are collected through that channel by this particular New York bank. The check is next listed by billing machine in duplicate on the remittance letter, which calls for the name of the drawer, place of payment, and amount, together with any instructions that are to accompany the item regarding the handling of the same. The duplicate of this letter, which, in addition to the information called for by the original, provides a column under which is entered the name of the customer for account of whom the check is received, is retained by the bank as its record of checks sent.

After all these details have been completed, the name of the Cleveland bank is filled in on the indorsement stamp. A record is then made on the letter register, showing the name of the Cleveland bank, date when the collection letter is sent, and the total amount of the items contained

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in the letter. This record is made in order that the work of the bank may be facilitated in keeping track of its remittances, so that should an acknowledgment of the same not be promptly received, a tracer may be sent out without delay to secure the desired information. Manifestly, it is essential to the bank to know that all letters containing inclosures are promptly and properly acknowledged. An envelope is then addressed, the letter folded and inclosed, the envelope sealed and stamped, and finally examined to see that it is properly addressed, sealed, and stamped. The letter is then mailed at the New York post-office.

The Cleveland bank, on receipt of this letter, enters in detail upon its books those items contained in it which are payable outside of Cleveland. It then writes a letter to its Massillon correspondent, inclosing the \$250 check for collection, makes a record of the letter and inclosure, addresses an envelope, in which are placed the letter and inclosure, and seals, stamps, and mails the letter.

The Cleveland bank next acknowledges the receipt of the item by drawing and remitting a check on its New York correspondent for the amount, less the usual charge for exchange. It writes a letter inclosing the check, takes a record of the same, addresses an envelope, puts in the inclosures, then seals, stamps, and mails the letter.

The check thus received by the New York bank is checked off the remittance letter, is stamped with the paid stamp of the collecting bank, is listed upon a slip with the other items received by the bank the same day upon the other New York bank on which the check received by it

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is drawn. The items thus made up are collected through the clearing house. The paying bank checks off the items paid through the clearing house from the slip on which they are listed, examines the check in question to see that it is properly drawn, dated, and signed, and that the signature is genuine, charges the check to the Cleveland bank's account on its books, cancels it, enters it on a voucher list, and at the end of a given period returns the check with others to the Cleveland bank.

The Cleveland bank, upon receiving its account current, voucher list, and canceled vouchers, immediately checks off the vouchers and verifies the statement of account. It then compares the checks with the stubs in the check book, and examines the checks themselves to ascertain if the indorsements are correct or if any alterations have been made thereon, and at last files the checks away for future reference, including the one that has been used in the particular case under consideration.

The letter from the Cleveland bank to Massillon containing the item is mailed the same day that the check is received from New York. It is received in Massillon the day following. After carefully examining the check to see that it is properly drawn and dated and that the signature is genuine, the Massillon bank charges the check to its customer's account and then draws its check on Cleveland, less the usual charge for exchange in payment of the same. It next writes a letter, inclosing the check, takes a record of the same, addresses an envelope, puts in the inclosures, and then seals, stamps, and mails the letter.

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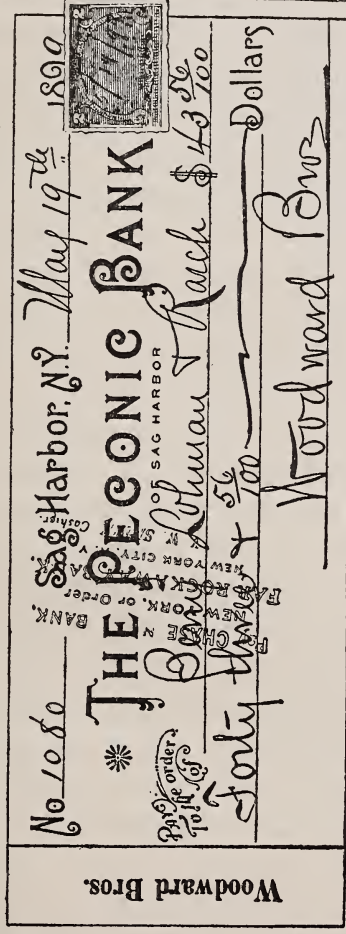
The customer in due course has his account made up, checks off the canceled checks returned by the bank from the voucher list, compares the checks with the stubs in his check book, examines the checks to ascertain if the indorsements are correct or if any alterations have been made, and finally files them away for future reference.

The Cleveland bank, upon the receipt of the remittance from its Massillon correspondent, completes its records by filling in the date of the receipt of the remittance and the amount of exchange charged by the Massillon bank.

The check thus received is listed by the Cleveland bank upon a slip containing all the items received by it the same day upon the other Cleveland bank on which the check is drawn. The items thus made up are then collected through the clearing house. The paying bank checks off the items paid through the clearing house from the slip on which they are listed, examines the check in question to see that it is properly drawn, dated, and signed, and that the signature is genuine, charges the check to the Massillon bank's account on its books, cancels the check, enters it on the voucher list, and at the end of a given period returns the check to its correspondent, the Massillon bank.

The Massillon bank, upon receiving its account current, voucher list, and canceled checks from the Cleveland bank, immediately verifies the statement of account, compares the checks with the stubs in the check book, and examines the checks themselves to ascertain if the indorsements are correct or if any alterations have been made in them, and, finally, files the checks away for future reference.

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Woodward Bros.	
No 1080	Sag Harbor, N.Y. May 19 th 1899
	
Pay to the order of Woodward Bros. \$43.50	
Fourty three & 50/100 Dollars	
J. H. Woodward	

FAC-SIMILE OF THE CHECK THE JOURNEY OF WHICH IS SHOWN ON THE MAP ON PAGE 71.

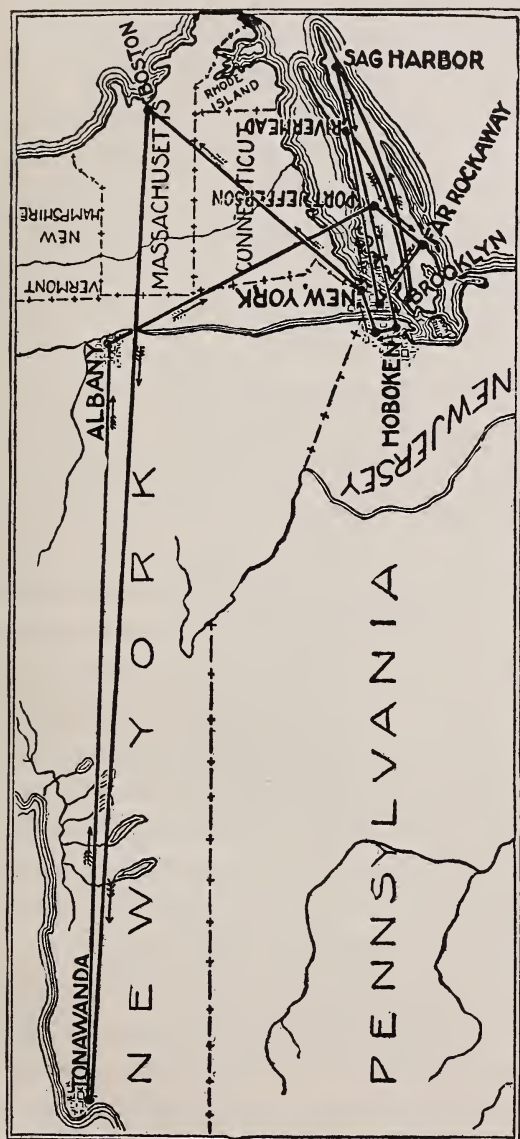
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In order to effect the collection of the aforementioned check, drawn on a country bank and remitted to New York in payment of an account, two checks had to be drawn, four letters had to be written, 8 cents in postage stamps were used, and seventy-five or more handlings of the check were involved by a score or so of clerks, in five different banks, located in three different cities.

Lest the picture should seem to be overdrawn—for, in fact, that which has been presented is only an average case—the following account of the actual travels of a check, of much smaller size and drawn upon a bank much nearer New York than Massillon, is submitted. It is illustrated by a reduced facsimile of the check itself and the indorsements that it received in transit.

The check, which was for \$43.56, was drawn by Woodward Brothers, of Sag Harbor, N. Y., and paid to Berry, Lohman & Rasch, of Hoboken, N. J., who deposited it in the Second National Bank of Hoboken. This bank sent it to Harvey Fisk & Sons, of New York, who, having no regular correspondent in the neighborhood of the bank on which it was drawn, sent it, along with other collections, to their Boston correspondent, the Globe National Bank. The Globe National Bank of Boston, for reasons that are not apparent, sent it, presumably with other items, to its correspondent at Tonawanda, N. Y., viz, the First National Bank of that city. The Tonawanda bank, evidently realizing that the check had wandered far out of its course, and in an effort to get it nearer home, transmitted it to the National Exchange Bank of Albany,

Clearing - House Methods



MAP SHOWING THE CHECK'S ITINERARY.

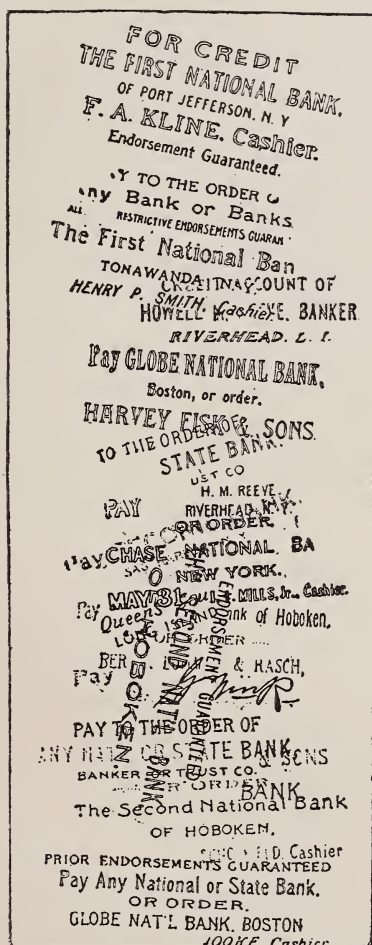
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which institution, pursuing the same commendable policy, remitted it to its correspondent at Port Jefferson. The First National Bank of Port Jefferson, which thus got possession of the check, again diverted its course by inclosing it to the Far Rockaway Bank. The Far Rockaway Bank sent it back to New York, to the Chase National Bank, and thus this much-traveled check made its second call in the metropolis. The Chase National Bank, it would appear, endeavored to correct the wanderer's course, and so dispatched it to Riverhead, to H. M. Reeve. Mr. Reeve, either because he really knew where to send it for collection, or because of a lucky hit, forwarded it to the Queens County Bank of Brooklyn, which finally sent it home to the Peconic Bank of Sag Harbor, on which it was drawn.

The reason why banks forward checks in this apparently unreasonable way, often getting the items far out of their regular course, is easy to explain. It sometimes appears cheaper to the bank which has the check in hand to inclose it with other items to some regular correspondent, which, assumedly, is nearer the bank on which the check is drawn than to hunt up a special correspondent for it alone. Once started, the poor check gets pushed along from station to station, on its erratic course, until such time as, by accident or otherwise, it finds its final lodgment.

The reader may estimate for himself the volume of correspondence which this one check caused, from the time it was drawn by Woodward Brothers until it was paid by the Peconic Bank, and the amount of postage.

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FAC-SIMILE OF THE BACK OF THE CHECK, SHOWING THE NUMEROUS INDORSEMENTS IT BORE ON FINALLY REACHING THE BANK ON WHICH IT WAS DRAWN.

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and cost of clerical work expended upon it. No better argument than the facts here presented is needed to support the proposition of charging a reasonable sum for collecting out-of-town checks. No better illustration than this could be presented to the business man for demonstrating to him the weight of the burden he puts on the banking machinery of the community by remitting his check on a country bank, in payment of an account, instead of purchasing exchange.

CHAPTER X.

CLEARING-HOUSE LOAN CERTIFICATES.

WHAT CLEARING-HOUSE LOAN CERTIFICATES ARE—ORIGIN—INTEREST RATES—USES—FIRST ISSUE IN 1860—THE ISSUES OF 1861, 1863, AND 1864—ACTION OF VARIOUS CLEARING HOUSES IN 1873—NEW ORLEANS IN 1879—NEW YORK IN 1884—ACTION OF THE NEW YORK, BOSTON, AND PHILADELPHIA CLEARING-HOUSE ASSOCIATIONS IN 1890—GENERAL RESORT TO LOAN CERTIFICATES IN 1893—EMERGENCY CIRCULATION IN THE SOUTH, BOSTON, AND PHILADELPHIA IN 1895—NEW ORLEANS IN 1896—CALCULATIONS OF INTEREST.

Clearing-house certificates are of two kinds—those issued upon the deposit of gold coin (and in New York City and Boston on gold and silver certificates and legal tender notes) and those issued upon the deposit of collateral securities. The former are employed in ordinary times solely as a method of economizing time and labor and reducing risk in handling large sums of money. The latter are employed in times of financial disturbance or panic, and although both are intended for use solely in the settlement of balances at the clearing house, the circumstances that call them forth, the results effected by their use, and the part they play in banking economy have little or nothing in common. The certificates issued upon the deposit of gold, etc., are termed “Clearing-house certificates,” and those issued upon the deposit of collateral

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security are very properly termed "Clearing-house loan certificates," with which latter only are we here concerned.

Clearing-house loan certificates may be defined as temporary loans made by the banks associated together as a clearing-house association, to the members thereof, for the purpose of settling clearing-house balances. Such certificates are negotiable, as a rule, only among the members of the association, and are not in any sense to be regarded as currency. They are not even seen by the business community, and do not pass from bank to bank except in payment of clearing-house balances.

To obtain an intelligent understanding of the real character and purpose of such certificates it will be well to treat somewhat of the circumstances under which they are issued. In the course of the present century the United States has undergone periodical derangements of business affairs, when confidence was displaced by mistrust, when the payment of debts became difficult, when property values declined, and business houses failed; when industry and trade were paralyzed, and general stagnation ensued in all lines of enterprise. In such times depositors in banks, stricken with fear and sometimes pressed by need, draw out their deposits, in many cases to such an extent as to render it difficult or even impossible for the banks to contract their loans sufficiently to meet the demands thus made upon them. Under our present currency system no adequate method is provided for expanding the money volume as occasion demands, whereby the banks can continue their usual loans and discounts, and thus prevent a panic with all its evil con-

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sequences. Hence it is left in a large measure to the financiers of each community to work out their own remedy, supplemented by such mutual assistance as a courteous regard for each other may dictate or as business relations may demand.

Quick to see the defects in our currency system, and the desirability of in some way supplying it, the bankers of New York, nearly fifty years ago, devised the scheme of issuing clearing-house loan certificates as a method of relief from temporary stringencies. Subsequently, nearly all the clearing houses in the great centers adopted the same device, and by their heroic resort to the measure they have at different times relieved the business community of untold disaster, for which invaluable service they have justly received the grateful recognition of the entire country.

The great value of clearing-house loan certificates lies in the fact that they take the place of money in settlements at the clearing house, and hence save the use of so much actual cash, leaving the amount to be used by the banks in making loans and discounts, and in meeting other obligations. The volume of currency, to all intents and purposes, is expanded by this means to the full amount of the certificates issued.

The loan certificates are taken out by the clearing-house members through loan committees, specially appointed, and are used, as a rule, only in the payment of balances among the associated banks. Thus, when the stringency in the money market seems sufficient to demand it, the clearing-house association meets and appoints a commit-

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tee called the "loan committee," consisting usually of five bank officers, to act in concurrence with the president of the clearing-house association, who serves *ex officio* as a member. It is the duty of such committee to meet each morning at the clearing house and examine the collateral offered as security by the banks and issue loan certificates thereon, in such denominations and proportions to collaterals deposited as may be agreed upon. In the history of the past the denominations have varied from 25 cents to \$100,000 in the different associations and in proportions varying from \$50 to \$100 of certificates to \$100 of collateral deposited.

These loan certificates bear interest at rates varying from 5 to 10 per cent per annum, payable by the banks to which they are issued to the banks receiving such certificates in settlement of daily balances. Hence the interest charged against certain banks must exactly equal and offset that credited to certain other banks. The aim is to fix the rates sufficiently high to insure the retirement of the certificates as soon as the emergency which called them forth has passed by. As a rule they are retired by the banks, which take them out as soon as they have obtained sufficient cash to meet their daily obligations. Notice is given by the debtor banks to the committee, calling for such certificates as they wish to retire, and the committee gives notice to the banks holding the same, stating that the interest will cease after a specified date. In due course the holders send the certificates to the clearing house for redemption. Upon the retirement of the certificates the collateral deposited as security is surrendered by the com-

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mittee in the same proportion to certificates turned in as was required for deposit at the time of issue.

It is by no means the general practice for all the members to take out loan certificates when issues are arranged by the association. Some banks are in such condition as to be able to weather the storm without them, while others are weak and in great need of relief. Some banks regard their use of clearing-house loan certificates as a reflection upon their standing, and hence refuse to apply for them unless driven to it by sheer necessity. Others regard it as in no way prejudicial to their interests, but rather as a patriotic movement in which all the banks should engage, both for the purpose of assisting their fellow-members and for the welfare of the community as a whole.

The members of the New York Clearing House Association especially have distinguished themselves in this regard. Up to 1907, when only about 60 per cent of the members found it necessary to take out certificates, it has been the almost universal rule for all the members to take loan certificates whenever the occasion demanded such action on the part of any of the banks, and this, too, without regard to how strong they may have been or how easily they might have gotten on without using them. In one instance, when a member bank refused to share the burden of the associated banks, it was suspended from the privileges of the clearing house for more than three months.

The total amount of its balances is not always paid in clearing-house loan certificates by a bank to which

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such certificates have been issued. Thus, for example, the debit balance of a given bank may be \$500,000, which in ordinary times would be paid in money or gold certificates. In a time of panic a part of this sum—say, \$300,000—is paid in clearing-house loan certificates and the remaining \$200,000 in currency. Another, with the same balance, might pay the whole in clearing-house certificates, while still another would pay the full amount without the use of any certificates whatsoever.

The first issue of clearing-house certificates occurred in 1860. In the autumn of that year there was a rapid shrinkage in bank deposits and a corresponding contraction in loans and discounts. The situation grew more and more serious as the end of the year approached. The presidential election was a disturbing factor of more than ordinary significance. Immediately succeeding the election of Abraham Lincoln to the Presidency the situation began to assume a critical aspect. Distrust and uncertainty were universally felt. The banks hesitated to advance loans, and obtained from their customers as rapidly as possible the payment of obligations. Call loans commanded 7 per cent, and paper of some of the best houses went begging at 24 per cent. In this crisis a meeting of the New York Clearing House Association was called, and the following resolution was passed:

In order to enable the banks of the city of New York to expand their loans and discounts, and also for the purpose of facilitating the settlement of the exchanges between the banks, it is proposed that any bank in the clearing-house association may, at its option, deposit with a committee of five persons—to be appointed for that purpose—an amount of its bills receivable, United States stocks, Treasury notes, or stocks of the State of New York, to be approved by said committee, who shall be authorized to issue thereon to said depositing bank certificates of deposit bearing interest

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at 7 per cent per annum in denominations of \$5,000 and \$10,000 each, as may be desired, to an amount equal to 75 per cent of such deposit. These certificates may be used in the settlement of balances at the clearing house for a period of thirty days from the date thereof, and they shall be received by creditor banks during that period, daily, in the same proportion as they bear to the aggregate amount of the debtor balances paid at the clearing house. The interest which may accrue on these certificates shall, at the expiration of thirty days, be apportioned among the banks which shall have held them during the time.

The securities deposited with said committee, as above named, shall be held by them in trust as a special deposit, pledged for the redemption of the certificates issued thereupon.

The committee shall be authorized to exchange any portion of said securities for an equal amount of others to be approved by them at the request of the depositing bank, and shall have power to demand additional security, either by an exchange or an increased amount, at their discretion.

The amount of certificates which this committee may issue, as above stated, shall not exceed \$5,000,000.^a

This agreement shall be binding upon the clearing-house association when assented to by three-fourths of its members.

Resolved, That in order to accomplish the purpose set forth in this agreement the specie belonging to the associated banks shall be considered and treated as a common fund for mutual aid and protection, and the committee shall have the power to equalize the same by assessment or otherwise.

For this purpose statements shall be made to the committee of the condition of each bank on the morning of every day before the commencement of business, which shall be sent with the exchanges to the manager of the clearing house, specifying the following items, viz: (1) Loans and discounts, (2) deposits, (3) loan certificates, (4) specie.

In accordance with the authority thus given the first issue of certificates was made November 23, 1860, and the beneficial effect was immediately felt. The banks rapidly extended their loans, deposits increased, and commercial paper, which formerly could not be sold for 20 per cent, was now freely marketed at 7 per cent and 8 per cent. On December 22 the issue had reached its maximum limit, viz, \$6,860,000; the aggregate issue, \$7,375,000. The last certificate was canceled March 9,

^a On December 3, 1860, it was voted to increase this limit to \$10,000,000.

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1861, and the total period, from the date of the first issue to the date of the last issue, was one hundred and six days.

But the relief thus afforded was not destined to be permanent. The country was soon plunged into the throes of civil war, and, consequently, distrust and uncertainty as to the future prevailed universally. Business interests were suspended, trade was hampered, and industry was paralyzed. As a result of the pressure the association passed a resolution in the following September, authorizing another issue of loan certificates, and on September 19, 1861, the first issue was made. The maximum of \$21,960,000 was reached on February 7, 1862, and, as will be perceived, was more than three times as much as the maximum amount outstanding at any one time in the preceding year. The total issue was \$22,585,000, exceeding the previous total issue by more than \$15,000,000. The rate of interest was 6 per cent as compared with 7 per cent in the former year, and the collateral used as security consisted of temporary receipts of the United States for the purchase of government bonds, as compared with United States stock, Treasury notes, and stocks of the State of New York, employed for the same purpose in the preceding issue. The last certificates were called April 28, 1862, more than seven months from the date of their first issue.

In 1863 the association issued certificates for the third time. The first bore the date of November 6, and the largest amount outstanding at any one time was \$9,608,000, from November 27 to December 1. The

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total issue was \$11,471,000, being a little more than one-half of the issue of two years before. Interest was charged at 6 per cent, as in 1861, and United States or New York State stocks, bonds, etc., or temporary receipts, as in 1861, were used as security. The last certificates were redeemed February 1, 1864, four and one-half months from the date of the first issue.

Owing to the prolongation of the war, with the consequent unrest in business circles, the issue of certificates for the fourth time began March 7, 1864, and reached its maximum, \$16,418,000, on April 20 of the same year, being an excess of nearly \$7,000,000 over the maximum amount outstanding at any one time in the previous year. The aggregate issue was \$17,728,000, being less than \$1,000,000 in excess of the maximum amount outstanding at one time. The rate of interest was 6 per cent, as in 1861 and 1863, and the certificates were secured by the same kind of collateral as those in the former issue. The final redemption occurred June 13, 1864, three and one-half months after the first certificates were issued.

No more loan certificates were issued until the year 1873, when, for the first time, the clearing-house associations of other cities, seeing their great practical utility, began to avail themselves of their use. In the year mentioned the association at New York followed the precedent established in 1860, and the same course was taken by the clearing-house associations at Boston, Philadelphia, Baltimore, Cincinnati, St. Louis, and New Orleans. The panic which called forth such

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No. 3437	\$10,000. Loan Committee of the New York Clearing House Association.	New York, 1873.	Committee.
CANCELLED			
<i>This Certificate that the</i> <i>has deposited with the Committee securities in accordance with the proceedings of a Meeting</i> <i>of the Association, held September 20th, 1873, upon which this Certificate is issued.</i> <i>This Certificate will be received in payment of balances at the Clearing House for the</i> <i>sum of TEN THOUSAND DOLLARS, from any Member of the Clearing House</i> <i>Association, until November 1st, 1873.</i>			
TEN THOUSAND DOLLARS.		\$10,000.	
On the surrender of this Certificate by the depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank, held by them, and surrender a proportionate share of the collateral securities held therefor. This Certificate may also be redeemed prior to the 1st of November, if desired.			

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED BY NEW YORK CLEARING-HOUSE IN 1873. LATER ISSUES
DIFFER FROM THIS ONLY IN THE OMISSION OF THE RESTRICTIVE DATE.

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united action was one of unusual severity. It reached its climax in September, and so severe were its ravages that the New York Stock Exchange closed its doors on the 20th of the same month, for an indefinite period, but reopened them ten days thereafter.

The usual resolutions were passed by the clearing-house association, authorizing the issue of certificates, and on September 22 the first issue was made. The amount was fixed at the outset at \$10,000,000, which, with the announcement that the Government would purchase the same amount of bonds, caused an immediate subsidence of the panic, and in less than three days its most acute stages were over. The last issue was made on November 20, a little less than two months from the date of the first issue, and the last certificates were redeemed January 14 of the following year, the period covered from the date of the first issue to the date of final cancellation having been less than four months. During the two months referred to certificates to the amount of \$26,565,000 were issued. This was far in excess of any previous issue, the nearest approach to it having been in 1861, when, as shown before, more than \$22,000,000 were taken out. The largest amount outstanding at any one time was \$22,410,000, which occurred only eleven days from the date of issue of the first certificates. Interest was calculated at 7 per cent, as in 1860, the rate during the intervening time having been 6 per cent. Bills receivable, stocks, bonds, and other securities were accepted by the committee as collaterals for the redemption of these certificates.

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Attempts on the part of the business community were made in vain to discover what banks had taken out certificates, but such information was very wisely withheld. For more than two months, covering the worst period of the panic, no weekly statements of their condition were made to the clearing house by the banks, the object being to prevent a general knowledge of the weak condition of some of the members, which condition, if disclosed, would invite runs upon them.

On September 27, 1873, a meeting of the Boston association was called, and it was voted to suspend currency payments and appoint a loan committee, with power to issue loan certificates to the amount of \$10,000,000, upon substantially the same basis as at New York. The issues were duly made, and on October 20 the amount outstanding reached its maximum of approximately \$4,800,000.

In like manner the Philadelphia association now, for the first time, entered upon the plan so successfully followed in New York since 1860, by appointing a loan committee, with authority to issue clearing-house loan certificates. Such certificates were authorized by resolution adopted September 24, 1873, and amended October 18, 1873, to read as follows:

For the purpose of enabling the banks, members of the Philadelphia Clearing House Association, to afford proper assistance to the mercantile and manufacturing community, and also to facilitate the inter-bank settlements resulting from their daily exchanges, we, the undersigned, do bind ourselves by the following agreement on the part of our respective banks, namely:

First. That the clearing-house committee be, and that they are hereby, authorized to issue to any bank, member of the association, loan certificates bearing 6 per cent interest on the deposits of bills receivable and other

No. 8294	Clearing House Committee of the Philadelphia Banks, <i>Philadelphia,</i>	\$5,000.	
THIS CERTIFIES, that the _____ has deposited with this Committee, securities in accordance with the agreement of a Meeting of Bank Officers; held September 24, 1873. This Certificate will be received during the continuance of said agreement and of any renewals of the same, in payment of balances at the Clearing House, for the sum of FIVE THOUSAND DOLLARS, only from a Member of the Clearing House Association, to whom the same may have been issued, or to whom it may be endorsed by the Manager of the Clearing House.			
		COMMITTEE.	
		On the surrender of this Certificate by the Depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank held by them, and surrender a proportionate amount of the collateral securities; except in case of default on the part of said Bank in its transactions through the "Clearing House Association of Philadelphia."	

FORM OF CLEARING-HOUSE LOAN CERTIFICATES USED IN PHILADELPHIA.

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securities to such an amount and to such percentage thereof as may in their judgment be advisable. These certificates may be used in settlement of balances at the clearing house, and they shall be received by creditor banks in the same proportion as they bear to the aggregate amount of the debtor balances paid at the clearing house. The interest that may accrue upon these certificates shall be apportioned monthly among the banks which shall have held them during that time.

Second. The securities deposited with the said committee shall be held by them in trust as a special deposit, pledged for the redemption of the certificates issued thereupon, the same being accepted by the committee as collateral security, with the express condition that neither the clearing-house association, the clearing-house committee, nor any member thereof shall be responsible for any loss on said collaterals arising from failure to make demand and protest, or from any other neglect or omission other than the refusal to take some reasonable step which the said depositing bank may have previously required in writing.

Third. On the surrender of such certificates, or any of them, by the depositing bank, the committee will indorse the amount as a payment on the obligation of said bank held by them, and will surrender a proportionate amount of securities, except in cases of default of the bank in any of its transactions through the clearing house, in which case the securities will be applied by the committee, first to the payment of outstanding certificates with interest; next to the liquidation of any indebtedness of such bank to the other banks, members of the clearing-house association.

Fourth. The committee shall be authorized to exchange any portion of said securities for others, to be approved by them, and shall have power to demand additional securities at their own discretion.

Fifth. That the clearing-house committee be authorized to carry into full effect this agreement, with power to establish such rules and regulations for the practical working thereof as they may deem necessary; and any loss caused by the nonpayment of loan certificates shall be assessed by the committee upon all the banks in the ratio of capital.

Sixth. The expenses incurred in carrying out this agreement shall be assessed upon the banks in equal proportion to their respective capitals.

Seventh. That the clearing-house committee be and they are hereby authorized to terminate this agreement upon giving thirty days' notice thereof at any stated meeting of the clearing-house association.

The issue of certificates made in conformity with the foregoing resolution reached the maximum amount outstanding at one time, namely, \$6,285,000, on December 1, 1873.

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At Baltimore, on September 24, the clearing-house association began the issue of certificates, which amounted in the aggregate to \$1,326,000. The last of these was retired January 2, 1874, one hundred days after the date of the first issue.

The first certificates at St. Louis were issued on September 25, and the last of the certificates were canceled forty-six days thereafter, the aggregate amount having been \$1,472,500.

At New Orleans the maximum amount outstanding (\$1,067,000) was attained October 10.

On September 25 the following resolution was adopted by the association at Cincinnati:

Resolved, That for the protection of our commercial interests and for the purpose of preventing a drain of currency from the banks and bankers of this city, the banks and bankers of Cincinnati do hereby agree to adopt substantially the plan adopted in New York City, namely, they will not pay out currency on checks, except for small sums, to be optional with the banks and bankers on whom they are drawn; but they will certify checks drawn on balances in their hands, payable through the clearing house only. When such checks are drawn in payment of notes or drafts, the bank holding the same shall not be required to deliver said paper until after the check in payment has been paid to the clearing house.

Resolved, That the above resolution be printed, and slips furnished each bank and banker.

Resolved, That the clearing-house association will issue not to exceed \$2,500,000 in loan certificates, to be used in settling balances between the members thereof, and that the same will be furnished to members in the proportion of securities put up by each as hereinafter provided. Said certificates shall not be negotiable, and shall be used only for the purpose of settlement between the banks and bankers in the clearing house.

Resolved, That members may deposit as a basis of credit in the association the following-described securities, namely, United States bonds, railroad and other bonds, stocks and bills receivable. The United States bonds shall be received at their par or face value, and the other securities shall be valued by a committee of five, who shall be appointed for that purpose, and the same shall be received at 75 per cent of the value so fixed. Each member shall receive a receipt for the securities deposited. The said committee shall have charge of the securities of whatsoever kind deposited

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by the said banks and bankers, and shall place the same with the safe deposit company for safe-keeping, and the said committee shall sit daily at the clearing house at the hour for clearing and shall personally supervise the issue of the loan certificates in settlement of balances. The said certificates shall bear interest at the rate of 8 per cent per annum, which interest shall be paid by the banks and bankers using the same and for the time so used.

Resolved, That these proceedings take effect from and after 9 o'clock to-day, and are not to affect currency transactions or obligations between members prior to this day.

In the period from September 25, when the issue of certificates was authorized, to October 9, when a resolution was unanimously adopted in favor of discontinuing their issue, a period of only fourteen days, certificates to the amount of \$515,400 were issued, the last of which were canceled just six weeks from the date of first issue.

✓ The next report of clearing-house loan certificates was in 1879, when the New Orleans association alone issued a small amount (\$54,000) to satisfy conditions of a purely local character.

In 1884 the New York association stood alone in the issue of loan certificates. The amount taken out at this time was large, and was begun early in the year to prevent a widespread and disastrous panic. The first were taken out May 15, and reached \$21,881,000, their maximum amount outstanding, on May 24, only nine days from the date of first issue. The last certificates were issued June 6, and the last were retired September 23, more than four months from the date on which the issue was begun. The total amount was \$24,915,000, being in excess of any previous issue except that of 1873. The rate of interest was fixed at 6 per cent, the same as in 1861, 1863, and 1864, and, as security for the redemption of such certificates, bills

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receivable, stocks, bonds, and other securities were employed.

For the next six years the country was free from any unusual financial disturbances, and hence no occasion arose for extraordinary measures. Finally, however, in 1890, came another period of pressure. Up to midsummer of that year the country had experienced unusual prosperity, but to the observing eye it was apparent that deep-seated forces were at work which would ultimately cause a widespread disturbance in business and financial circles, if not bring about a disastrous panic. This was evident from consideration of the unsatisfactory conditions prevailing in agriculture and from the unwholesome tendency to overtrading and expansion on every hand. The extension of railroads had been prosecuted throughout the year with more than ordinary vigor, which required the extension of large sums of money upon security. Early in the year the deposits in the banks of New York City began to fall off, and by May 17 the shrinkage had amounted to more than \$44,831,000, of which over \$13,500,000 consisted of balances drawn out by banks in the interior and in other reserve cities. Boston and Philadelphia were also subjected to heavy drains. After careful consideration, it was decided in each of these three cities to resort to the issue of clearing-house loan certificates, to be used in the settlement of clearing-house balances. New York was the first to take action, and on November 11, at a meeting of the association, the following resolution was unanimously adopted:

Resolved, That a committee of five be appointed by the chair, of which the chairman shall be one, to receive from banks, members of the association,

National Monetary Commission

bills receivable and other securities to be approved by said committee, who shall be authorized to issue therefor to such depositing banks, loan certificates bearing interest at 6 per cent per annum, and, in addition thereto, a commission of one-quarter of 1 per cent for every thirty days such certificates shall remain unpaid, and such loan certificates shall not be in excess of 75 per cent of the market value of the securities or bills receivable so deposited, and such certificates shall be received and paid in settlement of balances at the clearing house.

In pursuance of the authority thus granted, the committee of five was duly appointed, and they proceeded to issue to applying banks loan certificates in form substantially the same as that employed in 1873—elsewhere illustrated—which, in fact, with the exception of the limitation of time, is the form standard with this association.

The first certificates were issued November 12, 1890, and the issue ceased December 22, amounting in the aggregate to \$16,645,000; the largest amount outstanding at any one time was \$15,205,000, on December 12, and the last certificates were retired February 7, 1891, less than three months from the date of first issue. In order to provide for the retirement of these certificates, in case the collateral should be found insufficient, the boards of directors of the several associated banks passed the following resolution:

Resolved, That any loss resulting from the issue of loan certificates shall be borne by the banks comprising the clearing house association, pro rata to capital and surplus, and this resolution shall be ratified by the boards of the respective banks, members of the association, and a certified copy of such consent delivered to the chairman of the loan committee.

On November 27, five days after special action was begun by the clearing-house association of New York, the clearing-house association at Boston entered upon a similar course, by passing the following resolution:

Resolved, That a committee of five be appointed by the chair, of which committee the chairman also shall be a member, to receive from banks, members of the association, bills receivable, and other securities, to be

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approved by said committee, who shall be authorized to issue therefor, to such depositing banks, loan certificates bearing interest at 7.3 per cent per annum, and such loan certificates shall not be in excess of 75 per cent of the market value of the securities or bills receivable so deposited, and such certificates shall be received and paid in settlement of balances at the clearing house.

It is worthy of remark that the basis upon which the payment of any loss arising from the issue of loan certificates differed from that at New York, in that in the one case it was required to be paid by the banks in proportion to capital and surplus, and in the other in proportion to the average daily amount of exchanges which each bank had sent to the clearing house during the preceding year. The resolution bearing upon this point, adopted at Boston, was as follows:

Resolved, That any loss arising from the issue of loan certificates shall be borne by the banks comprising the clearing-house association pro rata according to the average daily amount which each bank shall have sent to the clearing house during the preceding year.

It was also voted that this resolution should be ratified by the boards of directors of the respective banks, members of the association, and a certified copy of such consent delivered to the chairman of the loan committee.

Upon deposit of securities with the clearing-house committee and the receipt of certificates therefor, each bank was required to execute and deliver an obligation in the following form:

The ——— Bank has this day received of ——— loan committee of the Boston Clearing House Association, loan certificates issued by said committee in pursuance of a vote of said association, passed November 17, 1890, to the amount of ——— thousand dollars, and has deposited with said committee the securities, a statement whereof is hereto annexed, and said ——— bank has received said loan certificates on the terms set forth in said vote, and agrees to pay the amount of said certificates, with interest thereon, as provided in said vote.

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The first certificates were taken out November 19, two days after the adoption of the resolution authorizing such action, and the last were issued December 6, when the amount reached its maximum of \$5,065,000. The last of the issue were finally canceled January 6, 1891, less than two months after the first issue.

On November 18, 1890, similar proceedings were had by the clearing-house association of Philadelphia, at which time the following resolution was passed:

Resolved, That in accordance with resolution of September 24, 1873, as amended October 18, 1873, the clearing-house committee will issue loan certificates to banks applying, and receive them in payment of balances.

The resolution of September 24, 1873, referred to, has already been quoted. On November 18, 1890, the clearing-house committee passed the resolution which had been adopted on that day by the clearing-house association, affirming their purpose to issue clearing-house loan certificates as in accordance with the resolution of 1873.

Acting under the authority thus granted, the clearing-house committee began the issue of clearing-house certificates, and the banks desiring to take them out were required to adopt a resolution empowering the hypothecation of acceptable securities, under which resolution the first issue of certificates was made on November 19, 1890, and ceased May 22, 1891. The total issue was \$9,655,000, and the maximum issue (\$8,870,000) was reached January 9, 1891. The certificates were all retired, excepting \$170,000 issued to the Keystone and Spring Garden National Banks, institutions which were carried down in the panic.

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In 1891 Louisville, Ky., issued loan certificates to a small amount, although none were required in the previous year, when New York, Boston, and Philadelphia were employing them extensively. This clearing house was the only one to use certificates that year, and what further distinguishes this association is that the issue referred to is the only one it had ever made.

Following the panic of 1890 came a period of prosperity, which, to all outward seeming, bore the marks of permanence, but it was only temporary. The clouds which began to appear prior to the advent of the Cleveland Administration, grew denser as time advanced, until in April, 1893, it was apparent, even to the superficial observer, that a storm of unusual severity was approaching. Reports of failures, as given by commercial agencies, showed a rapid increase as the year advanced, and the shrinkage in national-bank deposits from May 4 to July 12 exceeded \$190,000,000, while the decline in the deposits in state and savings banks was no less surprising. By June, banks all over the country were being forced to the wall. In July 73 national banks failed as compared with 25 in the preceding month, while the state and private banking houses showed a mortality equally alarming. By August 1 a panic of great severity was raging throughout the country, and particularly in the great metropolitan centers.

The only avenue of relief provided by the laws was the issue of additional national-bank notes, but to those familiar with the history of the past it was apparent that the national banks were bound hand and foot

National Monetary Commission

by indiscreet legislation, and were therefore unequal to the task of extending the relief so much needed, and which, under more favorable laws, might easily have been supplied. The situation was aggravated in no small degree in the reserve and central reserve cities by the urgent demands made for their reserves by the banks in the interior. So excessive was the drain upon the resources of the banks in some cities that in many cases they positively refused to respond to the calls of the banks for their reserves unless such call was accompanied by the assurance that such assistance was an urgent necessity. Such action was prompted by the fact that in many previous instances packages had been returned unbroken after the subsidence of a panic, showing that the contained amounts had been withdrawn through fear of loss rather than through the necessity of replenishing reserves.

In the absence of any legal expedient by which the country could escape from the unprecedented condition into which it had fallen, it was left to the financiers in the great cities and to the great corporations accustomed to wrestle with panics in times past to work out the people's salvation. The remedy that was applied affords one of the finest examples the country has ever seen of the ability of the people when left to themselves to devise impromptu measures for their own relief. The most potent factors in staying the force of the panic were the clearing-house loan certificates issued by the clearing-house associations throughout the country.

NO. <u>647</u>	\$5,000.	Loan Committee of the Boston Clearing House Association.
	Boston, _____ 189	
This Certifies, That the has deposited with this Committee securities in accordance with the proceedings of a meeting of the Association, held June 26, 1893, upon which this Certificate is issued. This Certificate will be received in payment of balances at the Clearing House, for the sum of Five Thousand dollars, from any member of the Clearing House Association.		
On the surrender of this Certificate by the depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank, held by them, and surrender a proportionate share of the collateral securities held therefor. \$5,000.		Committee.
FIVE THOUSAND DOLLARS.		

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN BOSTON.

National Monetary Commission

At New York authority was duly given, by resolution of the association, for the appointment of a loan committee for the issue of such certificates upon the hypothecation of acceptable collaterals. Immediately upon their appointment, the committee proceeded to issue to applying banks loan certificates upon the deposit of proper securities.

The issue was commenced June 21, 1893, and ceased September 6 of the same year, the total issue having been \$41,490,000. The largest amount outstanding at one time (\$38,280,000) was attained August 20, which amount remained unaltered until September 6. The last of the certificates was retired November 1, more than four months from the date of first issue. These certificates bore interest at 6 per cent, and were secured by the same kind of collateral as in 1873, 1884, and 1890. The aggregate amount was far in excess of any previous issue. The next largest amount was in 1873, the aggregate, it will be remembered, having been less than \$27,000,000.

The Boston Clearing House Association by resolution authorized a similar course, and on June 27 the committee began the issue of certificates in denominations of \$10,000 and \$5,000, respectively, bearing interest at 7.3 per cent, the same rates as in 1873 and 1890.

From August 23 to September 1 the amount was at its maximum—\$11,445,000. The aggregate issue was \$11,645,000, which, it will be observed, is somewhat in excess of one-quarter of the amount taken out at New York. From June 27, when the first issue was made, to the end of the period balances were paid at

No. 596

BALTIMORE CLEARING HOUSE.

Baltimore Clearing House,

Baltimore,

78

This is to Certify:

That the

has deposited with the Committee appointed by the Associated Banks on June 24th, 1893, Approved Securities, which are held as a Special Deposit to secure the redemption of this Certificate in compliance with resolutions adopted by said Banks on the day above named.

This Certificate will be received for the sum of ONE THOUSAND DOLLARS without endorsement, in settlement of balances resulting from the exchanges between the Banks, will bear interest at the rate of six per cent. per annum until redeemed, and will be negotiable only between the Associated Banks.

\$1000

Manager.

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN BALTIMORE.

99

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the clearing house with certificates to the extent of \$43,130,000, which was 38.4 per cent of the total balances at the clearing house during the time the certificates were used. By far the largest amount of certificates was employed in September, and so far as single days are concerned the maximum was reached September 7 and 9, the amount on each of these days having been \$1,065,000. By October 21 the certificates had all been retired and canceled.

In pursuance of a resolution of the association at Philadelphia, a loan committee was appointed, which issued certificates in denominations of \$5,000 only, bearing interest at 6 per cent, as in 1873 and 1890.

The total amount of the issue was \$11,470,000, being less by only a small amount than the total issue at Boston. The largest amount outstanding at any one time was \$10,965,000 on August 15, all of which was redeemed in due time without loss to any of the members.

At Baltimore certificates in denominations of \$1,000, \$3,000, and \$6,000 were issued, bearing interest at 6 per cent. From August 24 to September 6 the certificates outstanding were at their maximum of \$1,475,000, all of which were ultimately retired and canceled.

The Clearing House Association at New Orleans followed the action at New York as closely as possible. On June 22 a resolution was unanimously adopted as follows:

Resolved, That a committee of six banks be appointed by the chair to receive from banks, members of the association, bills receivable and other securities to be approved by said committee, who shall be authorized to issue therefor to such depositing banks loan certificates bearing interest at 7 per cent per annum, and such loan certificates shall not be in excess of 75 per cent of the market value of the securities or bills receivable

Clearing - House Methods

so deposited, the committee reserving the right to call for additional security as in their judgment the same is required; and such certificates shall be received and paid in settlement of balances resulting from the exchanges at the clearing house, and all the rules and regulations heretofore adopted in the issue of such certificates shall be in force in the present issue. It is expressly agreed and understood that no bank which shall have received certificates shall make any new loans or discounts, but shall confine its business to the collection of outstanding loans, until all clearing-house certificates shall have been retired.

Certificates were accordingly issued in denominations of \$500 to \$10,000. On the day of the passage of the above resolution it was also

Resolved, That any members of this association now out of line in their reserve shall immediately take steps to put themselves in line, and that any members desiring to avail themselves of the use of clearing-house certificates shall not be allowed to increase their line of discounts.

Also on June 22 the committee addressed to the cashiers of the several associated banks the following communication:

The undersigned beg leave to advise you that they have accepted the appointment extended to them by the meeting of the associated banks, held at the clearing house this day, to act as a loan committee, and that as such committee they will meet daily at the clearing house at 11 o'clock a. m. on and after Thursday, the 22d instant, prepared to issue loan certificates in accordance with the action adopted by the meeting referred to. Banks desiring to receive loan certificates on pledge of bills receivable or other securities to be deposited with the committee are requested to make application for such certificates at or before 11 o'clock a. m., in the form herewith inclosed, to the chairman of the committee at the clearing house, with a certified copy of a resolution of the board of directors, in the form inclosed, authorizing the deposit and pledge of securities for loan certificates. You are requested to report daily to the manager of the clearing house each morning at 10 o'clock the amount of certificates held by your bank.

One striking feature of the above communication which does not appear in the resolutions and communications in other similar associations is that banks are referred to as acting in a joint capacity instead of as

National Monetary Commission

No. _____

LOAN · COMMITTEE
OF THE

New Orleans Clearing House Association.

New Orleans, _____ 189

THIS CERTIFIES, That the _____
has deposited with the Committee, Securities in accordance with the proceedings of a meeting
of the Association, held _____, upon which THIS CERTIFICATE,
is issued. This Certificate will be received in payment of balances resulting from the exchanges,
at the Clearing House, for the sum of _____
from any member of the CLEARING HOUSE ASSOCIATION.

COMMITTEE.

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN NEW ORLEANS.

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individuals. Soon after the above action was taken, a resolution was passed by the boards of directors of the several associated banks as follows:

Resolved, That the president or cashier be and is hereby authorized and empowered to deposit, pledge, or hypothecate with the loan committee of the associated banks of New Orleans, United States stocks, bills receivable, or other securities belonging to this bank as collateral security for any loan or loans made to the said bank by that committee.

Applications to the loan committee for certificates were made by members in form as follows:

The ——— applies for the issue to them of loan certificates to the amount of \$——— to be secured by the deposit of collateral security as per security herewith sent.

Before taking out loan certificates the several members ratified the action of the association in authorizing their issue, in the following manner:

Resolved, That as a member of the New Orleans Clearing House Association, the action of said association in the matter of issuing clearing-house certificates is hereby ratified and confirmed, with all of its provisions.

To intrench themselves against loss in the event of failure on the part of any member of the association taking out loan certificates to redeem the same, with the stipulated interest, each member was required to execute and deliver an obligation, of which the following is a copy:

This certifies that the ——— National Bank of the city of New Orleans is indebted to the New Orleans Clearing House Association in the sum of ——— dollars, paid by said association to said bank on the faith hereof, and in consideration thereof said bank hereby agrees to pay said sum, with interest from the date thereof at the rate of 7 per cent per annum, to the said association or to its assigns, and said association is hereby authorized, through its loan committee or otherwise, to sell at public auction or private sale, on three days' notice to said bank, the securities deposited by said bank with such association, in accordance with the resolution of such association, in pursuance of which this certificate is issued.

CLEARING HOUSE CERTIFICATE.

Cincinnati, 1893.

This Certificate is issued to _____ **or order, for**

TEN THOUSAND DOLLARS,

against securities deposited under an agreement of the members of the Clearing House Association of June 16, 1893, and is available only in settling Clearing House balances.

\$10,000.00

Committee.

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN CINCINNATI.

C l e a r i n g - H o u s e M e t h o d s

As a further measure of protection to the members in the event of any emergency arising not otherwise provided for, it was further

Resolved, That any loss arising from the issue of loan certificates shall be borne by the banks comprising the clearing house association, pro rata of capital and surplus; and this resolution shall be ratified by the boards of the respective banks members of the association, and a certified copy of such consent delivered to the chairman of the loan committee. ✓

In addition to this, a resolution was passed limiting the amount of payment by any member of the clearing-house association to a single person in any one day to \$100. ✓ The largest amount of certificates outstanding at any one time was \$998,000, covering one week from September 7 to September 14, all of which were finally retired without loss to any member.

The Cincinnati clearing house likewise issued loan certificates in 1893, and the form employed at that time is given among the illustrations.

All of the associated banks at Buffalo took out certificates in 1893 in denominations of \$5,000 and \$1,000, bearing interest at 6 to 8 per cent, but they did not all use them. The form employed was substantially the same as that used at previous dates in New York. The sum total of the issue was \$985,000, with which balances were settled to the amount of \$2,780,000. In July, 40 per cent of the balances were paid with these certificates, and 50 per cent in August. From July 9 the amount outstanding reached its maximum, \$925,000.

Only 10 out of 19 members of the clearing-house association at Pittsburg took out loan certificates in 1893. The total amount issued was \$987,000, being only \$2,000

National Monetary Commission

C. No. _____	Loan Committee of the Bank of Commerce <i>Henry A. Washington</i> Detroit, Mich.	\$ 1,000						
ONE THOUSAND DOLLARS								
This Certifies that _____ has deposited with this Committee securities in accordance with the proceedings of a meeting of the Association held _____ upon which this certificate is issued. This certificate will be received in payment of balances at the Clearing House for the sum of ONE THOUSAND DOLLARS, from any member of the Clearing House Association.								
On surrender of this certificate by the Depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank held by them and surrender a proportionate part of the collateral securities held thereon.								
<i>Committee:</i> <table border="1" style="width: 100%; height: 100px; border-collapse: collapse;"> <tr><td> </td></tr> <tr><td> </td></tr> <tr><td> </td></tr> <tr><td> </td></tr> <tr><td> </td></tr> </table>								

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN DETROIT.

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more than the issue at Buffalo. The first were taken out August 11, and the last were retired November 10, the full amount of the issue having been outstanding on September 15. The certificates bore interest at 6 per cent.

A loan committee was appointed by the chairman of the clearing-house association of Detroit, upon vote of the association authorizing such action, and certificates bearing interest at 7 per cent were issued to members applying for the same in denominations of \$1,000. A sample of the certificate employed is presented in reduced facsimile among the illustrations. The amount attained a maximum of \$360,000 on September 11. In section 8 of the constitution, provision in case of loss resulting from default in payment by a member of the obligation executed and delivered upon receipt of loan certificates and from failure to realize a sufficient amount from the securities held as collateral to the obligation, is made as follows:

Fifty per cent of the loss shall be prorated among the members on the amount of the capital stock, and the residue of the balance of loss shall be assessed pro rata the aggregate amount which the several members have sent to the clearing house during the time any of such certificates of deposit may have been outstanding.

The Atlanta Clearing House Association passed a resolution, August 11, 1893, referring the matter of issuing clearing-house loan certificates to a special committee, and on August 15 a communication from the chamber of commerce was entertained, requesting the issuance of clearing-house loan certificates, whereupon a committee of three was appointed to act as trustees for the receipt of collateral securities, and for the issuance of such certificates to the extent of 66⅔ per cent of the collateral deposited.

No.	Atlanta Clearing House Association Certificate,	500
SERIES A.		
		ATLANTA, GA.
		
<i>This Certifies That the Banks composing the Atlanta Clearing House Association have deposited with the undersigned Trustees of said Clearing House Association, Securities to the value of SEVEN HUNDRED AND FIFTY DOLLARS, to secure to the bearer thereof the payment of the sum of FIVE HUNDRED DOLLARS before the first day of January, 1894. This Certificate is issued in accordance with the proceedings of a meeting of said Association, held on the Fifteenth day of August, 1893, and will be received on Deposit or in payment of debts due any bank in said Clearing House.</i>		
		TRUSTEES.

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN ATLANTA, GA.

C l e a r i n g - H o u s e M e t h o d s

On August 17 a new manager was appointed, who, under direction of the trustees, took active charge of issuing the certificates. The largest amount out at any one time was \$127,000. All were redeemed by November 1, save about \$20, which at last accounts were still outstanding. The denominations were \$5, \$10, \$100, and \$500. A sample of the largest denomination is presented on another page..

Two things are characteristic of the Atlanta certificates which are not to be found in any of those heretofore discussed. In the first place they were issued to the extent of only $66\frac{2}{3}$ per cent of the collateral deposited as compared with a minimum of 75 per cent in the other associations; and in the second place it is to be noted on the certificates that they "will be received on deposit or in payment of debts due any bank in said clearing house"—an implication that they were used for general circulation, which, indeed, is true.

In June, 1893, the clearing-house association at Birmingham, Ala., appointed a committee to inquire into the best methods for relieving the situation, which was aggravated by a run on one of its members about a month previous to that time, and the committee recommended the use of clearing-house loan certificates. In addition to this, the association passed resolutions similar to the one passed at New Orleans, limiting the amount of actual cash each member should pay to a customer on any one day to \$100, which was afterwards reduced to \$50, and providing a penalty for violation. The denominations of loan certificates first used were \$1,000, \$500, \$100, \$50, \$10, and \$5, respectively.

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Like the certificates in Atlanta, they were intended for general circulation among the customers of the banks, but unlike any certificates previously mentioned, they were issued to the extent of only 50 per cent of the collateral required. Customers at first received them with much reluctance, but they soon found that the merchants would take them for debts and for merchandise, that the banks would take them on deposit and accept them in payment of notes. To obtain cash, persons commenced to buy small bills of goods with them, expecting to receive money in change. This checkmated the merchants, and they called on the association for smaller denominations. Hence certificates of \$2, \$1, 50 cents, and 25 cents were subsequently issued. No other association in the United States had previously compared with the one at Birmingham in the comprehensiveness of its currency system and in the extent to which it was projected on this occasion. A facsimile of one of the smaller certificates is presented among the illustrations.

On August 22, 1893, the following resolution was adopted by the clearing-house association at Richmond, Va.:

Resolved, That the committee have certificates prepared in denominations of \$1, \$5, and \$10 in handsome form, ready for use at such time as this association may hereafter determine, said certificates to be payable on demand after ninety days through the clearing house, to bear 3 per cent interest per annum, and to be secured by deposits of collateral as by former resolution, interest to cease after ninety days.

The certificates were duly prepared in compliance with the authority thus given, but were never used.

BIRMINGHAM CLEARING HOUSE CERTIFICATE.		50c.
No.	Birmingham, Ala.	1893.
This Certifies that the _____ Bank, of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham Clearing House, securities to the value of ONE DOLLAR, to secure to the bearer hereof the payment of the sum of <i>FIFTY CENTS</i>, in lawful money of the United States, payable at any time after ninety days from date hereof. This Certificate will be received on deposit by any Bank or Banker of the Birmingham Clearing House at par.		
COUNTERSIGNED :		
CASHIER.		COMMITTEE.

FORM OF CLEARING-HOUSE LOAN CERTIFICATE USED IN BIRMINGHAM, ALA.

National Monetary Commission

The clearing-house association at Chattanooga, Tenn., resorted to loan certificates in 1893 (the first time in the history of that organization that it had done so).

Besides the loan certificates issued in 1893, there was a considerable amount of emergency circulation taken out by the banks in the Southeast, under the title of "Clearing-house certificates," in cities where no clearing houses existed. In adopting the name of clearing-house certificates, it was not the purpose of the banks to practice deception on the people, but to indicate what was really true and what the term would seem to imply, namely, that such certificates were temporary loans made by the banks associated together, and that the banks were pledged for their redemption. The denominations in the cities referred to were: Albany, Ga., \$10, \$5, and \$1; Chester, S. C., \$10, \$5, and \$1; Columbia, S. C., \$50, \$20, \$10, \$5, \$2, and \$1; Danville, Va., \$100, \$50, \$20, \$10, \$5, \$2, and \$1; Newman, Ga., \$10, \$5, and \$1; and Rock Hill, S. C., \$5, \$2, and \$1. There is no doubt that the relief afforded in this manner was of great public assistance in the several communities where it was given, effecting results similar to those accomplished by the actual clearing-house loan certificates in the great centers.

In 1895 came another period of depression, especially in certain localities, but by no means so disastrous nor so permanent as the panic of 1893. Such was the pressure at Boston, however, that the clearing-house association authorized the issue of loan certificates, which were taken out to the extent of \$235,000, the last of which were

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retired March 12, 1896. In like manner, at Philadelphia an issue was made aggregating \$8,220,000.

In 1896 at New Orleans, alone, clearing-house loan certificates were issued, this having been the eleventh time that resort to such measures had been made since the history of clearing houses in this country began, less than a half century ago. The largest amount of certificates outstanding at one time was \$399,000, and was attained on September 4. The last of the certificates were retired and canceled November 17. The occasion for the issue at this time was, no doubt, the disturbance in business circles arising from the presidential contest, which, always a disturbing factor, was in this year unusually exciting. Thus the New Orleans Clearing House Association enjoys the unique distinction of having on two occasions—1879 and 1896—been the only association to issue loan certificates.

(The method of calculating interest on certificates has been in many associations a source of much difficulty.) In some instances the clearing houses have taken no cognizance of the interest whatsoever, but left the members free to adjust it for themselves. It is clear that the interest, like the balances, must consist of credits and debits which exactly equal or offset each other. That is to say, the interest charged against certain members for the certificates taken out by them must exactly equal the interest paid to the members holding the certificates. It was not a difficult matter to keep a proper record of the interest to be charged against the members, for the clearing-house committee knew to whom and in what amounts

National Monetary Commission

they had issued certificates, and it was necessary only to calculate the interest at the stipulated rate on the full amount of the certificates issued to the several members for the time they were outstanding and to place the same to their debit; but to know what members held certificates issued to other banks and in what amounts after the settlement of balances therewith began was to many a source of confusion.

The New York plan has been perhaps the most complete and satisfactory, and was followed by many of the associations. Each member was required to send to the clearing house each morning a statement of the amount of certificates on hand. In a book kept for the purpose these amounts were entered to the credit of the banks, each account being kept on a separate page. At the end of the month footings were made of the certificates held by each bank for that time, and the total divided by the number of days the certificates were outstanding. This gave the average amount of certificates on hand for the given time, and upon this amount interest was calculated at the rate agreed upon and placed to the credit of the bank. Drafts were then drawn upon the banks to whom certificates had been issued for the interest due by them. In turn checks were sent to the banks holding certificates for the interest due to them.

The same plan was followed at Philadelphia, but at Boston each member calculated daily the interest due on the certificates held, and sent to the clearing house with the certificates to be used in settlement of balances a

C l e a r i n g - H o u s e M e t h o d s

ticket containing a statement of the interest due for the time the certificates were held.

At Buffalo the interest was calculated daily and settled weekly by draft of the manager on debtor banks in favor of creditor banks. At Louisville, Ky., the interest on the certificates taken out in 1891 was calculated by the bank, the clearing house taking no cognizance thereof whatsoever. The rate was fixed at 9 per cent for two days—virtually 18 per cent—and was placed at such an exorbitant figure to prevent the banks which took advantage of such certificates from expanding their loans at a higher rate of interest than they were paying on their loan certificates.

In all such cases the question might arise as to the disposition of the interest charged against members on certificates taken out but never used. It is only necessary to say in reply that it was the common practice to charge each with the full amount of certificates taken out, and to credit said bank with the full amount of certificates held, to whomsoever they might have been issued. The credit and debit interest, therefore, on certificates issued to any member, but never used, would exactly balance.

The certificates issued at Wheeling, W. Va., in 1907, bore no interest, but they were returned, the day following their receipt by the banks, through the clearing house, with an exchange charge of 10 cents each added.

Owing to a popular misconception of the character and purpose of clearing-house loan certificates, much adverse criticism regarding them has been indulged in, especially in 1893, on the ground that such issues were made in

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violation of the 10 per cent prohibitive tax on bank-note currency other than national bank-note circulation. Such objection was based on the assumption that clearing-house loan certificates were a form of national bank currency—an assumption which is ill-founded, both in theory and in fact. The certificates are essentially temporary loans made by the banks banded together as a clearing-house association to the members of such association, and are available to such banks only for the purpose of settling balances due from and to each other. In the words of a Comptroller of the Currency, they were but duebills, and their sole function consisted in discharging the single obligation at the clearing house. An attempt on the part of a bank in any of the associations issuing these certificates to use them otherwise would have incurred a fine and other penalties, provided in the rule governing such associations. In no instance, except those mentioned in the South, were they designated to serve as money, and nowhere else did they circulate as money. Hence the courts of Pennsylvania decided that they should not be regarded as money. The imposition of a tax upon them, therefore, would have been not only a serious blow to one of the most effective and ingenious contrivances for the deliverance of the country from the throes of panic that has yet been devised, but would also have been a direct violation of the spirit of the law.

CHAPTER XI.

CLEARING-HOUSE LOAN CERTIFICATES OF THE PANIC OF 1907.

CAUSES OF PANIC—ACTION OF THE NEW YORK CLEARING HOUSE—CHICAGO CLEARING HOUSE—BOSTON CLEARING HOUSE—PHILADELPHIA CLEARING HOUSE—CLEARING-HOUSE CHECKS ISSUED AT CANTON, OHIO—AT CINCINNATI AND CLEVELAND—CERTIFICATES AT FARGO, N. DAK., AND LOS ANGELES—PLAN OF GROUP 2, OHIO BANKERS' ASSOCIATION—TOTAL OF CERTIFICATES ISSUED.

During the latter half of 1907 a panic of great severity was experienced in this country, and while many reasons have been assigned as the cause of the disturbance, there is, apparently, no one that in itself exactly accounts for its presence at that time. A prominent banker and economist has recently stated as follows:

The truth is that responsibility for the panic of 1907 lies at the door of our currency system. No other adequate cause can be found. We do business by the modern system of bank credits, but we have failed to supplement this machinery with the means for readily converting bank credits into cash.

Whatever its causes were, New York banks found themselves in the fall of that year contending against rapidly falling bank reserves and runs on one or two prominent trust companies, both of which facts caused much uneasiness on the part of the general public.

A meeting of the New York Clearing House Association was held on October 26, 1907, for the purpose of determining whether the situation was sufficiently serious to

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warrant an issue of clearing-house loan certificates. It had been hoped for a week previous to the calling of this meeting that the crisis might be successfully passed over without the necessity of an issue of loan certificates arising. The situation, however, grew rapidly worse. Several of the banks applied for and received assistance through the joint action of many of the banks, who advanced cash, receiving therefor participating certificates, the clearing house holding the collateral security for the same. The drain upon all the banks was exceedingly severe, and it soon became apparent that aid would shortly be solicited by other members of the association. For this reason the meeting of the associated banks was called, and as the result of their deliberations a loan committee was unanimously appointed on the above-mentioned date and proceeded to receive and pass on collateral and issue loan certificates therefor under the terms of the following resolution:

Resolved, That the clearing-house committee, with the president of the association, be authorized to receive from banks members of the association bills receivable and other securities to be approved by said committee, who shall be authorized to issue therefor to such depositing banks loan certificates bearing interest at 6 per cent per annum, and such loan certificates shall not be in excess of 75 per cent of the market value of the securities or bills receivable so deposited, and such certificates shall be received and paid in settlement of balances at the clearing house, and all rules and regulations heretofore adopted in the issue of such certificates shall be in force in the present issue. Said committee shall have power to associate with it such other bank officers as they may judge necessary.

The committee first issued \$11,235,000 of certificates to take care of the aforementioned participating receipts, given for loans advanced the preceding week.

The date of the first issue was October 26, 1907.

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The date of the first cancellation was November 14, 1907.

The date of the final issue was January 30, 1908.

The date of the final cancellation was March 28, 1908.

The gross issue of certificates was \$101,060,000, and the maximum amount outstanding was \$88,420,000 on December 16, 1907.

During the period of its existence there passed through the hands of the committee, including original deposits of securities and substitutions of the same (both withdrawals and deposits), collateral aggregating in amount the vast total of \$453,000,000, of which \$330,000,000, or 72.92 per cent, consisted of commercial paper and \$123,000,000, or 27.08 per cent, of stocks, bonds, and short-time railroad and other similar notes.

Three thousand five hundred and forty-eight certificates were issued as follows:

412, at \$100,000 each.....	\$41, 200, 000
522, at \$50,000 each.....	26, 100, 000
1,005, at \$20,000 each.....	20, 100, 000
1,123, at \$10,000 each.....	11, 230, 000
486, at \$5,000 each.....	2, 430, 000

The greatest amount of certificates issued to any one bank was \$17,000,000, an amount of certificates greater than the aggregate issue of any individual clearing house in the United States, with the exception of Chicago! The smallest amount issued to any bank was \$250,000, which was done in two instances.

The aggregate amount of the issue, as will be seen by a comparison of figures, was two and a half times as large as the issue of 1893, \$41,490,000, which was, up to that time, the maximum amount that had been put out.

THIS CHECK IS PAYABLE ONLY THROUGH THE CHICAGO CLEARING-HOUSE AND MUST BE COLLECTED THROUGH A BANK.	
Chicago, November 11TH 1907 N^o D 14800 1	
Chicago Clearing-house Association	
PAY TO CONTINENTAL NATIONAL BANK OR BEARER \$10⁰⁰/₁₀₀	
TEN AND ⁰⁰/₁₀₀ ————— Dollars	
MANAGER.	
TO THE FIRST NATIONAL BANK	
OF CHICAGO	
THIS CHECK IS PROTECTED BY SECURITIES DEPOSITED WITH THE CHICAGO CLEARING-HOUSE ASSOCIATION.	
ASSISTANT SECRETARY.	

FORM OF CLEARING-HOUSE CHECK USED IN CHICAGO.

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Beginning with 1860 the issues of clearing-house loan certificates, at New York alone, have amounted to the enormous aggregate of \$269,839,000, all of which have been redeemed without the loss of a single dollar, and in periods ranging from three to seven months from the date of first issue.

The issue of clearing-house loan certificates by the Chicago Clearing House Association constituted a distinct innovation, since the action was taken for the first time in the history of the association. In 1893 the subject of making an issue of certificates was under serious consideration, and a vote was taken which showed a majority in favor of such action. Considerable aid had, however, already been given to the needy members, and the crisis was passed without the necessity for issuing certificates becoming apparent.

On October 26, 1907, the same day on which the New York association took its action, the clearing-house association at Chicago met and passed resolutions authorizing the issue of clearing-house loan certificates, under conditions very similar to those governing their issue by other large cities. The certificates were issued under the supervision of the clearing-house committee to the extent of 75 per cent of the market value of the collateral deposited and bore interest at the rate of 7 per cent.

This original action at Chicago was followed on November 6, 1907, by the passing of a supplemental set of resolutions authorizing the issue of clearing-house checks, a sample of which is shown among the illustrations, as follows:

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The undersigned members of the Chicago Clearing House Association do bind themselves by the following agreement supplemental to and in extension of the mutual agreement which was entered into by them under the date of October 29, 1907, for the purpose of assisting and protecting the community and facilitating interbank settlements resulting from their daily exchanges:

First. Any bank being a member of the Chicago Clearing House Association may at any time surrender to the clearing-house committee any loan certificate held by it which was issued under said principal agreement of October 29, 1907, to any other member of the association and receive in lieu thereof checks to the amount of the principal thereof, in the denominations of \$2, \$5, and \$10, as desired, drawn by or under the direction of the clearing-house committee on the banks to whom the surrendered certificate was originally issued and made payable through the Chicago clearing house only to the bank, or bearer, applying therefor, as aforesaid, which checks shall not draw interest.

Second. The checks so issued in lieu of certificates surrendered shall run to the bank applying therefor or bearer, and be negotiable like other bank checks, but neither the clearing-house association, the clearing-house committee, nor any member thereof shall be liable thereon, in respect thereto; but the same shall have the benefit and protection pro rata of the securities deposited under said principal agreement to the same extent as the certificates upon the surrender of which they were, respectively, issued, and so far as said securities are concerned shall stand in the place of such surrendered certificates.

Third. At any time any bank on which said checks are drawn may present any thereof that may have been paid by it to the clearing-house committee and surrender the same and receive credit therefor on or against the principal of the loan certificates in place of which the same were respectively issued. Any interest which may accrue or be allowed on any of said loan certificates, while the same is held by the clearing-house committee as aforesaid and checks are outstanding against the same, shall accrue and be allowed and paid to the Chicago Clearing House Association.

The first clause of the foregoing agreement was amended on November 13 to read as follows:

Any bank, being a member of the Chicago Clearing House Association, may at any time surrender to the clearing-house committee any loan certificate held by it which was issued under said principal agreement of October 29, 1907, to any member of the association and receive in lieu thereof checks to the amount of the principal thereof in denominations of \$1, \$2, \$5, and \$10, as desired, drawn by or under the direction of the clearing-house committee on the following banks designated for that purpose, viz,

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the First National Bank, the Corn Exchange National Bank, the Continental National Bank, and the Commercial National Bank, and made payable through the Chicago clearing house or to the bank, or bearer, applying therefor, as aforesaid, which checks shall not draw interest.

Thus it will be seen that the Chicago Clearing House Association issued checks in amounts of \$1, \$2, \$5, and \$10 designed for general circulation, to the extent of about \$7,500,000, secured by clearing-house loan certificates, which in turn were secured by 133 per cent of good collateral. The aggregate amount of clearing-house loan certificates issued in Chicago was \$39,240,000, and the maximum amount outstanding was \$38,285,000 on December 18, 1907.

The first issue was made on October 28, the last issue on December 17, 1907. The first cancellation was made on December 14, 1907, and the final cancellation on January 17, 1908, thus showing the issue to have been of less than three months' duration.

During the last few days of October the Boston Clearing House Association met and appointed a committee of six bank officers, of which the chairman of the clearing-house committee was one, to receive bills and notes receivable and other securities to be approved by the committee, who thereupon issued certificates to an amount not in excess of 75 per cent of the value of such property deposited, as determined by the committee, the certificates bearing interest at the rate of 7.3 per cent.

The resolutions further provided that any loss arising from the issue of the loan certificates should be borne by the banks of the clearing-house association, pro rata, according to the average daily amount which each bank

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had sent to the clearing house during the twelve months ending September 30, 1907.

Under these regulations a total issue of \$12,595,000 was made. The first certificates were put out on October 28, 1907, and the last were withdrawn and canceled on January 24, 1908.

The associated banks of Philadelphia issued clearing-house certificates under an agreement which went into effect on September 24, 1873, and has remained substantially without change from that time. In all essential details it is similar to the regulations at New York, and, therefore, needs no special comment.

On account of the temporary scarcity of currency employers found it necessary to make payments of wages in pay checks, payable through the clearing house, instead of in cash, and it was deemed important that such checks should be rendered as readily available as possible. A special meeting of the clearing-house association was, therefore, called on November 16, 1907, and the following resolutions were unanimously adopted:

Resolved, That it is recommended by the clearing house of Philadelphia that hereafter pay-roll checks made payable through the exchanges of the Philadelphia clearing house shall be certified before issue by the banks upon which they may be respectively drawn.

Resolved, That the clearing-house association recommend that no pay-roll checks be certified by any member of the association unless furnished by the American Bank Note Company in the form approved by the clearing-house committee.

Resolved, That such pay-roll checks shall only be furnished to members of the association upon application to the clearing-house committee.

Resolved, That the members of this association before certifying pay-roll checks shall open a pay-roll account for the depositor to whom such checks are issued, to which account said pay-roll checks shall be charged when paid.

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Resolved, That returns of the amount of checks issued and outstanding, as shown by the balance to the credit of pay-roll account, shall be made daily to the clearing-house committee by the banks which have accepted and certified them.

The aggregate issue of clearing-house loan certificates by the Philadelphia banks was \$13,695,000, an amount considerably in excess of that of any previous issue.

Many of the clearing houses of the country issued clearing-house checks, or cashier's checks, generally under proper safeguards, in small denominations, which were intended for general use, to take the place of cash temporarily withdrawn from circulation.

Canton, Ohio, is a center of manufacturing interests of considerable magnitude, and, therefore, required large amounts of cash for pay rolls, which was not available. A consultation was held between the bankers and their manufacturing clients, with the result that the use of pay checks was agreed upon. One general form was used, there being but three denominations—\$5, \$10, and \$20—and each bank provided its customers with a supply of these. The checks were made payable to bearer through the Canton clearing house only, and had to be signed by an authorized person connected with the firm or corporation issuing them. These checks, however, were found unsatisfactory, partly from the fact that when small purchases were made with them the tradespeople were obliged to make change with cash, which soon exhausted their supply. Subsequently, therefore, clearing-house checks, or cashier's checks, payable to bearer through the clearing

\$5.00

Canton, Ohio, November 11, 1907.

PAY TO THE BEARER
FIVE DOLLARS FIVE DOLLARS \$5.00

PAYABLE ONLY THROUGH THE CANTON CLEARING-HOUSE.

THE CITY NATIONAL BANK.

Cashier.

FORM OF CLEARING-HOUSE CHECK USED AT CANTON.

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house only, in amounts of \$1, \$2, \$5, and \$10, were issued to the extent of about \$200,000. These checks had no collateral security back of them, and were accepted purely on the responsibility of the issuing bank. A specimen of this check is shown herewith.

A special committee was appointed by the Cincinnati clearing house on October 28, 1907, and early in November of that year checks, printed from steel plates, in denominations of \$2, \$5, \$10, and \$20, were issued to each of the 14 clearing-house banks. The committee received from each bank high-class collateral security of not less than 20 per cent in excess of the face value of the certificates delivered to it, which collateral was held until the checks were retired and canceled. A list of merchants who had expressed a willingness to cash these checks, numbering in excess of 300 names, was published in the papers, and in several instances a premium of as high as 5 per cent was allowed for cash purchases made and settled by these cashier's checks. The total amount of the checks so issued was about \$2,000,000, and as soon as the currency situation again became normal they practically retired themselves.

The action of the Cleveland association in this regard was substantially the same as that taken by Chicago, with the exception that the clearing-house loan certificates issued by the associated banks of Cleveland were not used in the settlement of balances at all, but were made the basis, dollar for dollar, for the issue of clearing-house checks in denominations of \$1,

FARGO, N. D., _____ 190__ ON OR BEFORE THREE MONTHS AFTER DATE THE BANKS OF FARGO AND MOORHEAD COMPOSING THE Clearing-house Association OF THE CITY OF FARGO WILL PAY TO THE BEARER THE SUM OF FIVE DOLLARS (\$5.00) THIS CERTIFICATE IS ISSUED UNDER AN AGREEMENT BETWEEN THE FIRST NATIONAL BANK OF FARGO, THE MERCHANTS NATIONAL BANK OF FARGO, THE FARGO NATIONAL BANK OF FARGO, THE COMMERCIAL BANK OF FARGO, THE NORTHERN TRUST COMPANY OF FARGO, THE NORTHWESTERN MUTUAL SAVINGS AND LOAN ASSOCIATION OF FARGO, THE FIRST NATIONAL BANK OF MOORHEAD, THE MOORHEAD NATIONAL BANK OF MOORHEAD, THE FIRST STATE BANK OF MOORHEAD, BY WHICH ALL SAID BANKS ARE LIABLE HEREON. THE CLEARING-HOUSE ASSOCIATION OF THE CITY OF FARGO	NO. 1251 _____ PRESIDENT. _____ SECRETARY.
Trustee for the Fargo Clearing-house Association of the City of Fargo. I hereby certify that I hold collateral in double the amount of this certificate to guarantee the redemption thereof.	

FORM OF CLEARING-HOUSE CERTIFICATE USED AT FARGO, N. D.

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\$2, \$5, and \$10, of which it is said they performed nearly all the functions of currency during the brief period of their existence.

The Fargo (N. Dak.) Clearing House Association appointed a trustee to receive collateral and issue clearing-house loan certificates in denominations of \$5, \$10, \$20, \$100, and \$500. These certificates, a facsimile of which is presented among the illustrations, were payable on or before three months after date, were signed by the president and secretary and attested by the trustee, and were issued to the extent of only 50 per cent of the collateral deposited—an unusually low percentage.

In addition to an issue of clearing-house loan certificates made by the Los Angeles association on October 30, 1907, authorization was also given for an issue of what was termed "clearing-house circulating certificates or scrip," designed as a circulating medium for the general use of the public. These "circulating certificates," in the regulations governing their issue, closely resemble the clearing-house checks issued by several other associations, and their purpose was identical. In form they were somewhat more elaborate than were most of such certificates issued during that period, the idea being to render them as difficult of counterfeiting as was possible.

Most of the clearing houses that issued both clearing-house loan certificates and clearing-house checks secured the checks by the deposit of loan certificates, which were secured by collateral, but at Los Angeles

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\$5.00	
PAY BEARER FIVE DOLLARS <i>In addition to the liability of this bank collateral has been deposited with the Board of Trustees of Associated Banks Group No. 2 Ohio Bankers' Association as additional security herefor.</i>	
(NAME OF ISSUING BANK) No. _____	PAYABLE IN EXCHANGE CASHIER. _____

FORM OF CHECK ISSUED BY GROUP 2, OHIO BANKERS ASSOCIATION.

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both the loan certificates and the scrip were directly secured by collateral, the former to the extent of 133 per cent, and the latter by securities valued at 200 per cent of the amount issued.

The loan committee of the Oklahoma City Clearing House Association adopted resolutions permitting the banks to take out certificates in the same form as those used at St. Louis, but provided that no bank should be required to hold, in the aggregate, an amount of these certificates that would more than equal 5 per cent of their deposits on the day the certificates were offered to them in payment of balances at the clearing house, and that when a bank having a credit in the clearing house reached the 5 per cent limit the debit bank should pay currency or exchange at the option of such bank.

The action taken by the associated banks of group No. 2 of the Ohio Bankers' Association, which includes the banks of Allen, Auglaize, Darke, Hancock, Harden, Logan, Mercer, Miami, Paulding, Putnam, Shelby, and Van Wert counties in that State, is worthy of comment, since it offers the first concrete example of the possibilities of the banks of any particular section of any State, uniting in an effort to overcome the disastrous consequences resulting at times from false rumors in panic periods. The agreement under which the group above mentioned operates contains some new and interesting features, and it is therefore presented in full, viz:

The undersigned associated banks, members of group No. 2 of the Ohio Bankers' Association, each for itself or himself, as well as mutually with the others hereto, in consideration of the benefits derived and to be derived from the following agreements, stipulations, and conditions, agree hereto,

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and each bank or banker affixing it with his name hereto, or by resolution adopting and confirming these articles, agrees to be bound by each and all of the provisions hereof.

1. It is intended hereby to provide protection to the banks and bankers and the patrons thereof joining herein.

2. Three trustees shall be named and vacancies filled by the executive committee of group No. 2 of the Ohio Bankers' Association, and these three shall constitute a board of trustees, hereinafter referred to as "said board," for the purposes of carrying out this agreement.

3. Any two members of said board are authorized to act hereunder.

4. Said board shall have full authority to grant relief to any bank or banker hereof upon satisfactory assets and the title thereto being transferred and delivered to said board.

5. Said board shall be the sole judges of the necessity, sufficiency, and deservability of such relief, as well as of the value of such assets, and the amount advanced to any bank or banker shall in no case exceed 60 per cent of the cash value of such assets so transferred and delivered to said board.

6. A member hereof desiring relief in either manner herein named shall apply and furnish all necessary information and details required by said board, and comply with all requests of said board and pay all expenses incident to the entire transaction, whether as to application furnishing relief or repayment.

7. All advances made under the order of said board to any member hereof shall, together with 8 per cent interest, be repaid within sixty-five days from the making of such order by said board.

8. In order to enable said board to act promptly upon any application for relief, each member hereof shall, on January 1 and July 1 of each year, furnish to the chairman of said board a detailed statement of the resources and liabilities of such member, which information is for the sole use of said board, and the improper disclosure by any member of said board shall be cause for his removal by the executive committee.

9. In case relief is decided upon to any member hereof, said board having fixed the amount of such relief shall apportion between the members hereof the amount to be paid by each, based upon its resources, and each member shall be notified of the fact of relief, the amount to be paid by such member, and the same shall at once be sent to such member granted relief, payable in gold, silver, or currency, as the sending member may elect, and a failure so to do as provided shall subject such defaulting member to a forfeiture of his rights hereunder for relief and the surrender of his certificate of protection hereunder; and each member so advancing shall at once notify said board of the date, amount, and manner of such remittance, and each member so relieved shall not only receipt to each assisting member but shall send a copy of such receipt to said board. Upon assurance of

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such contribution said board shall issue to each contributing member a certificate of the fact, date, and amount of such contribution.

10. Upon failure of any member so aided to pay any sum, interest, and expenses as above provided when due, then said board in their names, followed by the word "trustees," are authorized to sue and recover from said defaulting member the said amount, interest, and expenses, or convert said assets into money by suit as above or otherwise, or said board may, at its election, sell at public or private sale, with or without notice, the assets so transferred and delivered to it by such defaulting member, and said board is authorized, by the signature of its chairman, as follows:

"Without recourse -----, *Chairman.*"

to indorse, transfer, and deliver upon such sale the full and legal title to the purchaser of any or all assets so delivered to it by such defaulting member. After closing out the transaction, any balance left in the hands of said board after paying the amount, interest, and costs as a result of such relief shall return to said defaulting member any balance in its hands; or, in case the sale of said assets shall not be sufficient to fully pay said amount so furnished, together with interest and costs as above provided, said defaulting member shall be liable to said board for such balance, to be collected by suit or otherwise as above provided.

11. All repayments shall be to said board and shall be distributed by it among the members contributing to such members relieved upon the same basis that such relief was extended.

12. In case it should be determined by the executive committee of said group that checks should be used for the relief of any member hereof in lieu of direct relief as hereinbefore provided, then, and in that event, said board may receive of the assets to be selected, valued, and determined as hereinbefore provided, and may furnish blank checks for the use of such member, to be issued by it to the amount of 60 per cent of the value of the assets so indorsed and deposited with said board as security against said checks, and for the purpose of protecting the other members hereof against loss by reason of the issuance of such checks by such member. Said blank checks shall be lithographed, and said board shall keep a record of the numbers and amounts of such checks as to each bank so receiving same for its benefit. Said checks shall also on their face contain the following statement:

"In addition to the liability of this bank, collateral has been deposited with the board of trustees of associated banks, group No. 2, Ohio Bankers' Association, as additional security herefor;" and also in the lower left-hand corner the words "Payable in exchange." Upon the acceptance of the collateral and delivery of said blank checks said member so receiving the same may issue them, and each member hereto agrees to receive them in the course of business. Said bank so receiving said checks shall, at the earliest possible date, redeem them by canceling them and presenting

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them to said board, receiving in return the collateral deposited, but such collateral shall be held and retained as security for the members hereof until such checks have been canceled and returned, each member hereof to be notified of the amount of such checks so delivered to each member upon such collateral. Said board shall have the right in the interest of all members hereof to call for the cancellation and return of said checks at such time or times as it deems best, and if, for any reason, said member so receiving said checks fails to comply with said request, said board may sell such collateral either at public or private sale, with or without notice, and transfer to the purchaser thereof perfect title therein in the following manner, to wit:

“Without recourse-----

-----, *Chairman.*”

and use the proceeds of such sale in the redemption of said checks so received by said bank, the balance, if any, to be delivered to said member; or, in case the sale of said collateral is not sufficient to redeem said checks, any balance shall be a claim against such member.

13. Any member having received relief in either manner above named shall not make any loans or discounts until the relief, interest, and expenses above named shall have been fully paid or said checks fully redeemed, and any breach of this clause shall render due the sum so advanced and the interest thereon, or the immediate rights to sell collateral under the “check” clause hereof, and said board may proceed as though the full limit of time had elapsed for repayment of said sum advanced and interest thereon.

14. It is expressly understood and agreed that said board and its members, when appointed, are the trustees for the members hereof, fully authorized in the premises to do all things, to fully carry out the purposes hereof and they, by so acting, assume no personal liability.

15. On account of the number of parties hereto this agreement is printed, and the signature of any member hereof to any printed copy mailed to the chairman of said board shall bind such member for himself and mutually with all others.

16. Any member hereof who may engage in what, in the judgment of said board, is illegal or improper banking shall forfeit its membership herein when said board in its discretion deems it best to so declare, and the certificate so issued to such member shall be returned to said board and all rights of said member hereunder shall cease and determine, except as to its right to be reimbursed when and as any other members are reimbursed for any advances by it made for the relief of any other member under the terms hereof. After January 1, 1908, applications for membership hereto shall be upon written application directed to the chairman of the board of trustees, and membership can be granted upon the approval of two members of said board.

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The object contemplated by this agreement was the protection of the members of the group against the disastrous results of rumor and consequent "runs" by extending to the needy ones, who were worthy to receive it, such assistance as they might require to tide them over their troubles. In other words, it was a plan for the mutual protection of the banks in this particular section, and was one that might well be emulated, under like circumstances, by any group of any state association in the country.

During the two or three days remaining in October, after the New York Clearing House Association had taken action, the clearing houses of the country, with practical unanimity, met and made provision, at least, for the issue of some form of instrument that would aid in relieving the existing conditions. A few clearing houses, prominent among which was the association at Washington, D. C., found no occasion for action at all, while others met and made provision, so that in case of need there would be no delay in getting the machinery going, but in the majority of cases the situation was sufficiently trying to cause the immediate issue of such instruments. These instruments bore rates of interest varying from 5 to 10 per cent, and were issued for from 50 to 80 per cent of the collateral deposited to secure them.

It is practically impossible to estimate the amount of these instruments outstanding at any one time. Suffice it so say that it seems safe to assert that in excess of \$250,000,000 of them, in the aggregate, were issued

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during the panic by the various clearing houses of the country, and in addition thereto a few of the railroads and some of the larger industrial corporations issued checks of various denominations, which were used in making payments of wages to their employees during the period of extreme stringency, which checks passed current for the time being.

Taken as a whole, these instruments served well the purpose for which they were issued, and once again the utility of them as an emergency measure was demonstrated in a practical way, and on a scale the magnitude of which had never before been approached.

CHAPTER XII.

CLEARING-HOUSE BANK EXAMINERS.

GENERAL REMARKS—EXAMINER APPOINTED AT CHICAGO IN 1906—MINNEAPOLIS AND ST. PAUL—ST. LOUIS—LOS ANGELES—KANSAS CITY AND ST. JOSEPH—PHILADELPHIA—DETAILS OF PROPOSED GROUP PLAN OF THE CALIFORNIA BANKERS' ASSOCIATION.

In the first edition of this book, published some nine years ago, the writer strongly advocated the appointment, especially by the stronger clearing houses of the country, of clearing-house bank examiners, whose duty it should be to make periodical examinations of each bank member of the associations with which they were affiliated, as a desirable means by which to reduce to a minimum the number of bank failures due to mismanagement and bad judgment.

This recommendation was in no wise intended as a reflection upon the examinations pursued under national and state authority. The national and state officers are limited in their powers of criticism to actual infringements on the law, and before they can take steps to correct such infringements capital has often become impaired and failure is threatened.

Most bank failures are due to the gradual acquirement of undesirable assets over a period of years, and if some

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authority exists with power to make recommendations of a remedial character, with the further power to enforce such recommendations, if necessary, there is little doubt that many bank failures would be averted.

The panic of 1907 presented many striking examples of just what is intended to be emphasized in this chapter, viz, that under the careful supervision of a competent and reliable examiner many of the assets of the failed banks, upon which it was impossible for them to realize at a time when they needed their funds, would probably have been liquidated upon his recommendation and advice long before the necessity for such liquidation had arisen.

Mr. J. B. Forgan, of Chicago, has recently said on this subject:

A competent examiner—and there are many such now in the government employ—while he can not pass judgment on all the loans in a bank, can, after a careful examination, or a series of examinations, form a wonderfully correct judgment as to the general character of its assets and as to whether its management is good or bad, conservative or reckless, honest or dishonest. Examinations, as they are now conducted, have a most beneficial influence on bank management, especially by way of restraint. The correspondence carried on by the Comptroller, based on the examiners' reports, does an inestimable lot of good in the way of forcing bank officers to comply with the law and in compelling them to face and provide for known losses as they occur. Supervision by examination does not, however, carry with it control of management and can not, therefore, be held responsible for either errors of judgment or lapses of integrity. Examination is always an event after the act, having no control over a bank's initiative, which rests exclusively with the executive officers and directors, and depends entirely on their business ability, judgment, and honesty of purpose.

The clearing-house association of Chicago was the pioneer in the establishment of an independent system of clearing-house bank examinations in this country, its

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system having been inaugurated on June 1, 1906, with results that have, to the present time, more than fulfilled the expectations of the bankers of that community. The chairman of the clearing-house committee, speaking in this connection only recently, said:

The result of our experience in Chicago is most satisfactory and gratifying. The banks have almost unanimously adopted every suggestion made by the clearing-house committee for their betterment and strength. In several instances the committee, from its wider knowledge of the financial situation, has been able to save some of the smaller institutions from loss by enabling them to take hold of conditions in time. I can not properly go into such details as would illustrate the effectiveness of clearing-house examinations as we have experienced it, and can only say in a general way that it has been even more satisfactory than I anticipated it would be before it was undertaken.

In substantially his own words the Chicago examiner operates under the following conditions: The examinations extend to all the associated banks of Chicago and to all nonmember institutions. The work is conducted with the aid of five regular assistants, each fitted by experience to thoroughly do that part of the work assigned to him. The examinations include, besides a verification of the assets and liabilities of each bank, so far as is possible, an investigation into the workings of every department and are made as thorough as is practicable. After each examination the examiner prepares a detailed report in duplicate, describing the banks' loans, bonds, investments, and other assets, mentioning specially all loans, either direct or indirect, to officers, directors, or employees, or to corporations in which they may be interested. The report also contains a description of conditions found in every department. One of these reports is filed in the vaults of the clearing house, in the custody of the examiner, and

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the other is handed to the examined bank's president for the use of its directors. The individual directors are then notified that the examination has been made and that a copy of the examiner's report has been handed to the president for their use. In this way every director is given an opportunity to see the report, and the examiner, in every instance, insists upon receiving acknowledgment of the receipt of these notices.

The detailed report retained by the examiner is not submitted to the clearing-house committee, under whose direct supervision he operates, unless the discovery of unusual conditions makes it necessary. A special report in brief form is prepared in every case and read to the clearing-house committee at meetings called for that purpose. The report is made in letter form, and describes in general terms the character of the examined bank's assets, points out all loans, direct or indirect, to officers, directors, or employees, or to corporations in which they may have an interest. It further describes all excessive and important loans, calls attention to any unwarranted conditions, gross irregularities, or dangerous tendencies, should any such exist, and expresses, in a general way, the examiner's opinion of each bank as he finds it.

Less than a year after the Chicago Clearing House Association appointed its special examiner the associated banks of Minneapolis took similar action. The conditions under which the Minneapolis examiner operates are substantially the same as those governing the examiner at Chicago, the principal difference being that instead of the examiner sending a copy of his report to the president of

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the examined bank and notifying each of the directors of such bank that he has made such examination and that the report is in the hands of the president of the institution, as is the rule of procedure at Chicago, and which, in a measure, leaves it to the discretion of the directors whether they examine the report carefully and in detail, the original report is delivered by the examiner at Minneapolis in person to the board of directors of each bank which he examines, at a meeting convened for that purpose. The report is read and the criticisms, if any, are fully discussed, and the recommendations considered. In this way no director can complain that he had not sufficient opportunity to become fully conversant with all the details of his bank.

This action was taken by the Minneapolis banks on February 1, 1907, and on May 1, 1908, fifteen months later, the associated banks of St. Paul, recognizing the utility and value of the plan, joined with the Minneapolis association in the arrangement for clearing-house examinations, and another assistant examiner was appointed. Examinations extend to all national, state, and savings banks and trust companies within the Twin Cities, to the number of 38 institutions, and the examiner visits each institution at least twice a year.

At a meeting of the St. Louis Clearing House Association held on October 11, 1907, the committee of management was authorized to devise regulations looking to the appointment of a clearing-house bank examiner, together with such assistants as he might require. The panic of that year, however, intervened, and the appointment of the examiner was deferred until February 1, 1908, and he

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commenced his work with two capable assistants and a stenographer on March 15 of that year.

A detailed report is prepared in duplicate of the condition of each bank examined, as at Chicago, setting forth a description of the bank's assets, including all loans, direct or indirect, to officers, directors, or employees of the bank, or to corporations in which they may have an interest and the nature and value of the collateral held to secure the same. The reports further detail all loans in excess of the legal limit, all loans upon which the margins are deemed insufficient, all past-due paper, and an estimate of the probable loss, if any is apparent, on all the bank's investments. The reports also include the condition of the bank's reserve on the date of examination and the general condition of the same for the thirty days immediately preceding.

The banks are required to have a statement of their accounts with correspondent banks at the close of business on the day of examination, mailed direct to the examiner, and these statements are reconciled with the books of the bank. Should errors or discrepancies be discovered, they, too, are made a matter of special comment in the report. All resource accounts are verified by an examination of the actual security, or by correspondence, and all liabilities as shown by the supplemental books of the bank are listed and compared with the general ledger.

The examiner may insist, if, in his judgment, the conditions warrant it, upon receiving a detailed reply signed by all the directors of the bank, regarding matters com-

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plained of in his report, and a statement from them as to what steps will be taken to correct the same.

None of the details of the report are presented to the committee of management, unless, in the discretion of the examiner, the facts are such as to require their attention. When, however, a state of affairs exists which is not in harmony with sound banking, or any infringement of federal or state laws is discovered, the regulations provide that the report shall be submitted to said committee, and, after due consideration by that body, the officers and directors of the bank under criticism shall be brought before the committee and given a hearing. If the conditions are not corrected and a satisfactory adjustment made, the bank shall be denied the privileges of the clearing house.

The committee of management of the St. Louis Clearing House Association evidently realized the danger of having one man so fully conversant with the affairs of all the banks, as was certain to be the case with an examiner of this character, and the temptation it might be to any bank to endeavor to secure the services of a man who possessed such an intimate knowledge of the affairs of its competitors, and provided against such a contingency by contracting with him, and also, with his assistants, not to accept any position in any financial institution within a radius of 300 miles of St. Louis, within a period of three years after severing their connection with the clearing house, unless such connection should be made with the knowledge and consent of the committee of management.

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The clearing-house associations of Los Angeles and San Francisco have each provided for examinations of their respective members by special examiners appointed by the clearing house. The plan upon which these examiners operate is modeled closely upon the St. Louis idea, so that it would be ambiguous to discuss them in detail. Suffice it to say that they have been operative for a sufficient length of time to be well tried out, and that no dissatisfaction has become apparent.

In the early part of 1908 the associated banks of Kansas City took under advisement the matter of securing the services of a special examiner to be in the employ of the clearing house, and in March of that year entered into a contract with one of the members of a firm of certified public accountants of that city to do the work.

In all essential details the operations of the examiner are along the same lines as are those of other cities. One striking feature of the plan is the maintenance by the examiner of a credit record by card-index system, and in other ways, whereby memoranda are kept of the borrowings of all country banks and large individual firm and corporation borrowers, together with certain credit information, all of which is at the service of any member of the clearing house. Information as to the identity of the bank from which the borrowings have been made is never given, but a debtor's total borrowings and all other information, gathered from time to time by the examiner, are at the service of any bank which indicates a desire to have it.

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The St. Joseph Clearing House Association, in the early part of the present year, also entered into a contract with a prominent firm of certified public-accountants to make examinations of its various affiliated institutions under constitutional provision. The plan contemplates but one examination of each institution a year, and much general satisfaction has been expressed with the examinations made thus far.

The first and only association in the East to take this important step was that of Philadelphia. That the recent panic strongly impressed certain bankers of that city who served on the clearing-house committee during that trying period, with the idea that they had assumed an enormous responsibility in extending credit to the various members of the association without even the knowledge that their condition was satisfactory, is undoubtedly responsible for the unanimous action taken by the association on April 5, 1909, providing for the appointment of a clearing-house examiner. The plan under which the examiner operates is the result of a study of all the systems and methods pursued in the West, and the best features of each have been adapted to their purposes. Having been thus formulated it is unnecessary to discuss the details, which would be a duplication of certain features of each of the other plans touched upon. In this instance, however, the examiner was obliged to enter into an agreement with the clearing-house committee not to enter the employ of any member or nonmember of the association, or any other bank, banking institution, firm, or individual engaged in the

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business of banking in the city of Philadelphia, or within a radius of 250 miles thereof, for a period of five years after the expiration of his services with the association, which, as will be seen, precludes his acceptance of a position with a bank in the city of New York. The restriction as to the length of time during which he may not engage in the banking business within the prescribed radius is two years longer than that required by the association at St. Louis.

Prior to July 1, 1909, the banking laws of California did not provide for any state supervision by examination of its banks; and the bankers of that State, realizing that public opinion was gradually tending toward a demand for better supervision of banking institutions all over the country, and acting on a practical suggestion made by a visiting banker at one of the group meetings of the California Bankers' Association, started a movement which had for its purpose the formation of clearing-house associations for each of the state groups, each with proper officers and a local examiner. The laudable object of this California plan was "to improve and strengthen the banking system of the State; to prevent improper and unsafe conduct upon the part of officers or directors of any bank within the State; to provide a system of thorough and competent examination into the affairs of every bank belonging to this association by expert examiners; and, generally, to safeguard the common interests of the banks and the public." All banks were eligible to membership, but under the plan no bank could withdraw unless in good condition, and the associations had power to expel any member, notice of such expulsion to be sent

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to the national or state banking department, and to each and every member of the association. The plan contemplated the division of the State into eleven districts, the clearing-house association of San Francisco being No. 1, that of Los Angeles No. 2, and so on.

The plan was perfected, and nothing remained but to set it in motion, when the California legislature passed a new banking law, based upon that of New York, which provided for the appointment of a competent superintendent of banks, with a liberal allowance for the expenses of the office. The new superintendent commenced his duties on July 1 of the present year, and pending an opportunity to observe the character, efficiency, and results of his work the group plan of examinations has been abandoned.

The subject of the appointment of a bank examiner has been discussed by the associated banks of New York on one or two occasions, but sufficient opposition has each time developed to make it impossible of accomplishment.

CHAPTER XIII.

THE NEW YORK CLEARING HOUSE.

ORIGIN AND EARLY HISTORY—FORMAL ORGANIZATION IN 1853—FIRST LOCATION—NEW YORK CLEARING-HOUSE BUILDING COMPANY—CEDAR STREET PROPERTY—CONSTITUTIONAL PROVISIONS—COMMITTEES—STATISTICS OF MEMBERSHIP—CLEARING FOR NONMEMBERS—STATEMENTS OF CONDITION—CAPITALIZATION OF NEW YORK BANKS—RECORDS OF CLEARING HOUSE.

Notwithstanding the magnitude of the transactions at the New York clearing house, and the important part that it plays in banking economy, very little is known about it outside of banking circles. The business community is not familiar with its functions, and the public in general knows very little of its operations. While the exchanges are enormous, the method is simple and easy to comprehend. It is the purpose of this chapter, therefore, to inquire into its origin and trace its growth and constitutional development. To the end that the reader may be the more fully prepared to comprehend its true significance it is necessary, by way of introduction, to pass in review the methods of exchange employed by the New York banks prior to its establishment.

During a comparatively short period immediately following 1849 the number of banks in New York increased from 24 to 60. In the daily course of business each bank received checks and other items on each of the other banks,

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which had to be presented for collection. All such items on hand were assorted and listed on separate slips at the close of the day, and items coming in through the mail on the following morning were added at that time. To make the daily exchanges each bank sent out a porter with a book of entry, or pass book, together with the items to be exchanged.

The receiving teller of the first bank visited entered the exchanges brought by the porter on the credit side of his book and the return exchanges on the debit side, who then hurried away to deliver and receive in like manner at the other banks. It often happened that five or six porters would meet at the same bank, thereby retarding one another's progress and causing much delay. Considerable time was consumed in making the circuit. Hence, the entry of the return items in the books of the several banks was delayed until the afternoon, at an hour when the other work of the bank was becoming urgent.

A daily settlement of the balances was not attempted by the banks, owing to the time it would have required, but they informally agreed upon a weekly adjustment, the same to take place after the exchanges on Friday morning. At that time the cashier of each bank drew a check for each of the several balances due it, and sent a porter out to collect them. At the same time the porter carried coin with which to pay balances due by his bank. After the settlement had been made, there was a meeting to adjust differences and bring order out of chaos.

An old bank officer (J. S. Gibbons), in describing the inconveniences and defects of this system, says that some

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of the more speculative banks took advantage of the weekly method of settlements by carrying a line of discounts to an amount greater than their legitimate resources would allow. Thus, a bank would manage to carry a small debit balance of \$2,000 or \$3,000 with thirty or more institutions, making a total debit balance of, say, \$100,000 on which it discounted paper. It was the practice to borrow enough on Thursday to make the settlements on Friday, and the return of the loan on Saturday threw it again into the debtor column. Virtually, therefore, the weekly settlements were nominal only, and to show that there was no attempt at economy of time and labor in making them, it is only necessary to say that the cashier drew a check for every balance due him, whereas a draft on one bank in favor of another might have settled two accounts at once.

The banks were at liberty to draw on each other for their credit balances without waiting for the settlements on Friday, and hence, when specie was needed, this was not infrequently done. But so far did many of the banks extend their loans and discounts that a single small draft by one bank on another would induce a general drawing and involve them all in confusion and virtual war on each other. Three o'clock would arrive, with the line of drafts incomplete, thus enabling debtor banks oftentimes to add \$50,000 to their specie, whereas creditor banks would find themselves at the close of the day depleted in perhaps twice that sum.

The desirability of a substitute for such a system had long been realized, but as yet no plausible scheme had

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been proposed. As early as 1831 a plan had been suggested by Albert Gallatin, which, to a very remarkable degree, coincided with the one ultimately adopted. His proposition occurs in a pamphlet of 124 pages, entitled "Suggestions on the Banks and Currency of the Several United States in Reference Principally to the Suspension of Specie Payments," and is so significant that we quote it in part:

There is a measure which, though belonging to the administration of banks, rather than to legal enactments, is suggested on account of its great importance. Few regulations would be more useful in preventing dangerous expansions of discounts and issues on the part of the city banks than a regular exchange of notes and checks and an actual daily or semi-weekly payment of the balances. It must be recollected that it is by this process alone that a bank of the United States has ever acted or been supposed to act as a regulator of the currency. Its action would not in that respect be wanted in any city the banks of which would, by adopting the process, regulate themselves. It is one of the principal ingredients of the system of the banks of Scotland. The bankers of London, by the daily exchange of drafts at the clearing house, reduce the ultimate balance to a very small sum; and that balance is immediately paid in notes of the Bank of England. The want of a similar arrangement among the banks of this city produces relaxation, favors improper expansions, and is attended with serious inconveniences. The principal difficulty in the way of an arrangement for that purpose is the want of a common medium other than specie for effecting the payment of balances. Those are daily fluctuating; and a perpetual drawing and redrawing of specie from and into the banks is unpopular and inconvenient.

In order to remedy this, it has been suggested that a general cash office might be established, in which each bank should place a sum in specie, proportionate to its capital, which would be carried to its credit in the books of the office. Each bank would be daily debited or credited in those books for the balance of its account with all the other banks. Each bank might at any time draw for specie on the office for the excess of its credit beyond its quota; and each bank should be obliged to replenish its quota, whenever it was diminished one-half or in any other proportion agreed on.

It may be that some similar arrangement might be made in every other county or larger convenient district of the State. It would not be necessary to establish then a general cash office. Each of the banks of Scotland has an agent at Edinburgh, and the balances are there settled twice

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a week, and paid generally by drafts on London. In the same manner the balances due by the banks in each district might be paid by drafts on New York or any other place agreed on.

These extracts contain the very quintessence of the clearing-house system. A regulation "belonging to the administration of banks rather than to legal enactments" comprehends the clearing house constituted as a private and voluntary association, unchartered, and in fact unknown to the law. The remedy for the "dangerous expansions of discounts and issues" and for the "relaxation and serious inconveniences" is afforded by the very system which he proposed; and the "want of a common medium other than specie for effecting the payment of balances," which was the "principal difficulty in the way of an arrangement for that purpose," strikingly suggests the clearing-house gold coin and legal-tender certificates in use at the present day. The problem of the "unpopular and inconvenient system of drawing and redrawing specie from and into the banks" has met its solution in the clearing house, and the "general cash office, in which each bank should place a sum in specie," is represented in the present coin depository.

The proposition that the specie deposited by each bank should "be carried to its credit in the books of the office" savors of the London rather than of the American plan. The extension of the clearing-house system is a partial fulfillment of the remark that "some similar arrangement might be made in every other county or larger convenient district of the State," and the absence of the coin depository in the smaller cities is in keeping with the idea that "it would not be necessary to estab-

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lish a general cash office in such places." The payment of balances in most of the smaller clearing houses, by drafts on New York and other large centers, is a remarkable confirmation of the idea that "balances due by the banks in each district might be paid by drafts on New York or any other place agreed on."

But the times were not ripe for the scheme thus proposed. Mr. Gallatin was thinking in advance of the age. More than twenty years passed by before his fellow-bankers could appreciate the wisdom of his suggestions. In time, however, the question began to be more generally discussed. For nearly a year it was under consideration, and finally it was deemed advisable to call a meeting to take decisive action upon it.

On August 23, 1853, 16 presidents, 1 vice-president, and 21 cashiers, representing 38 banks, assembled in the directors' room of the Merchants' Bank, and at this meeting a resolution was passed providing that "a committee be appointed to procure or hire a suitable room in or near Wall street, for the purpose of holding meetings of the officers of the city banks; that the said committee be requested to submit a plan, at an adjourned meeting of this body, to simplify the system of making exchanges and settling the daily balances; and that when a room is procured or hired for the above purpose, the president or cashiers be requested to meet weekly until a plan is agreed upon." In compliance with this request, the committee presented a plan for the daily settlement of balances, at a meeting held on August 31, 1853, which plan was amended so as to pro-

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vide "that a room be procured for that purpose, sufficiently large to afford suitable accommodations."

On September 13, 1853, the scheme was adopted and the committee was "clothed with full power to hire a room, appoint a manager and clerks, and make all the necessary arrangements to carry the plan for a clearing house into effect." On October 4 the date for beginning operations was fixed for October 11. Accordingly, on the appointed day, the representatives of the banks, members of the association, met in a room which had been procured in the basement at No. 14 Wall street, and made the first exchanges. The total clearings on that day were \$22,648,109.87, and the balances were \$1,290,572.38. These clearings have since been eclipsed by over \$30,000,000 in the totals of a single bank.

The clearing system in America was thus fairly launched, and from that time forth its success exceeded the expectations of even its most ardent projectors. The association consisted at that time of 52 banks, banded together for their common good, which, as they then conceived, consisted solely in the exchange of items and settlement of balances at a uniform time and place. For nearly a year the operations were conducted without a constitution. The adoption of such an instrument was opposed, on the ground that it was not needed and might lead to a dangerous concentration of power in the hands of a few managers, who might use it for personal aggrandizement, or for the exercise of an arbitrary supervision. But the need of fixed rules of some

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sort for their guidance became more and more urgent, and on February 28, 1854, one of the bank officers "recommended that an act of incorporation be obtained for the clearing house, or that some other form of organization be adopted, with a constitution and laws for its government, providing for regular meetings of bank officers."

A constitution was drafted by George Curtis, and upon June 6, 1854, it was adopted and ordered sent to the several banks for their action. Upon August 1 it was signed by each of the members and thereby put into full force and operation. This instrument, with the changes that have been made from time to time by the adoption of amendments and resolutions, is in force at the present day.

The subject of proper accommodations for the transactions of the clearing house was frequently considered. As already shown, the original location was fixed at No. 14 Wall street, but the quarters were not entirely suitable, and hence, on May 1, 1854, the seat of operations was transferred to No. 82 Broadway. At a meeting held in May, 1857, a committee was appointed to consider the subject of removal from that locality. One month later the committee reported in favor of occupying a room in the building of the Bank of New York, at No. 48 Wall street, and their report was adopted. In March, 1858, the association first met in the new rooms. At a meeting held five years thereafter, the question of removing to a more central location was discussed, but it was voted to be inexpedient to consider the subject of removal at that time.

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At a meeting on the 24th of June, 1868, a committee was appointed to select suitable rooms for the use of the clearing house and meetings of bank officers; and the chairman of the committee, in his report to the association on October 15, 1869, stated that they "had been unable to find such rooms; but that the building then being erected by the Equitable Life Insurance Company, on Broadway, corner of Cedar street, had been under consideration, but it was found that sufficient and suitable room could not be had in that building, and recommended that the association purchase a building and fit it up to meet the wants of the clearing house and the banks." At a subsequent meeting the committee was requested by resolution to renew their efforts to procure suitable rooms. Meanwhile the association had been accumulating a building fund, which by October, 1874, amounted to over \$90,000.

Some time expired before an opportunity offered for the purchase of available property. Finally, the National Bank of the Commonwealth Building, on the corner of Nassau and Pine streets, was advertised to be sold at public auction on October 13, 1874, and the committee was instructed by a vote of 41 to 5 to purchase it at any price that was satisfactory to it. Accordingly, the committee attended the sale and purchased the property for \$215,000.

In payment of this sum, \$75,000 was borrowed on the securities in the hands of the committee, and for the remaining cost and contemplated improvements in the building a draft was made upon the associated banks, at the rate of twenty-two one-hundredths of 1 per cent on their

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respective capitals. In return therefor each bank received a certificate from the trustees, with the stipulated agreement that it should receive thereafter a proper consideration for the amount advanced. Subsequent drafts were made upon the members, in proportion to their capital, as in the previous instance, for the purpose of defraying the cost of improvements, including the furniture and fixtures of the new building. The drafts in total amounted to three-tenths of 1 per cent of the respective capitals of the banks. In return for the amounts so advanced certificates were given as before.

The bank building was properly altered and equipped for the transactions of the clearing house, and on June 17, 1875, the premises were occupied. Here the clearing house remained for the next twenty-one years. At a meeting of the association, April 20, 1892, the attention of the clearing-house committee was called to the probable necessity of securing before many years a larger and more commodious building for clearing-house purposes. As the result the committee was instructed to consider the matter and report. The same committee, in conjunction with the trustees, was authorized at a meeting on December 29, 1893, to acquire for use of the association the property known as 79 to 83 Cedar street and to sell the property on the corner of Pine and Nassau streets.

A meeting of the association was held January 16, 1894, when it was unanimously resolved "that the clearing-house committee be authorized to organize a corporation to take title to the property just purchased, to be known as the New York Clearing House Building Company; to draw

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upon all the banks represented, in proportion to their respective capitals and surplus, for all money needed to pay for the said property, and for the erection, fitting up, and furnishing of a building thereon, suitable for the use of the association; to issue to each of the banks so paying a receipt for such payment, in such form as shall be approved by counsel, and to apply the money so received to the purchase of the said land, and to supply the said building company with funds to defray the cost of the erecting and furnishing of the said building. ”

A form of receipt was adopted, certifying that the bank specified therein had paid to the clearing-house association the sum named toward the purchase of the real estate in Cedar street for the use of the banks, members of the association, and that the said bank is entitled to interest upon the said amount at the rate of 5 per cent, and further providing that the bank shall not transfer the certificate while a member of the association; and if it shall at any time cease to be a member, then the association shall have a prior right to purchase the certificate at a price not exceeding the amount named and interest.

The Cedar street property was duly bought and the corporation organized to take the title. The capital stock of the corporation was fixed at \$900,000. For this 9,000 shares were issued—8,975 in the name of the president of the clearing-house association and 25 in the name of the 5 directors of the Clearing House Building Company, who held the same in trust. The banks paid to the clearing-house committee the full amount of the shares, for which, in turn, they received the certificates. In addition, the

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sum of \$230,000 was collected from the members as a final assessment for the erection of the new building, and for this amount certificates were issued in due form, and these, with the \$900,000 previously issued, made \$1,130,000 of certificates outstanding. The final report of the committee showed that the cost of the building was \$1,099,569.72.

The new building, two views of which are given herewith, in which the association took up its abode in the middle of January, 1896, is built of white marble, in the Italian renaissance style. It is an adornment to the city and is one of the architectural gems of the world.

Thus we have seen that the association occupied four different locations before coming into the structure erected for its own use; and that after each removal it remained longer than it had in the quarters just abandoned.

The constitution of the New York clearing house provides in full for the regulation of the affairs of the association and for the guidance of its members. A general meeting is held annually, and special meetings may be called by the clearing-house committee whenever it may deem it necessary, or whenever it is requested to do so by any seven of the associated banks. A majority of the whole number of associated banks constitutes a quorum. Each bank may be represented at all meetings of the association, and is entitled to one vote.

The administration of the clearing house is vested in a president, secretary, manager, assistant manager, and five standing committees.

The president is elected by ballot at the annual meeting, to preside at that meeting and all subsequent meet-

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ings during the year. He is ex officio member of all committees except the committee on nominations. In his absence a chairman pro tempore is appointed.

The secretary is elected at the same meeting, and it is his duty to record the minutes of each meeting of the association.

The manager, under the control of the clearing-house committee, has full charge of all business at the clearing house, but before entering upon his duties he is required to give bond in the sum of \$10,000. The clerks of the establishment, as well as the settling clerks and porters of the several associated banks, while at the clearing house, are under his direction. He superintends the operation of clearing, the adjustment and settlement of balances, the keeping of the records of transactions as they take place from day to day, the preparation and publication of the weekly bank statements, and, in a word, attends to all the detail work of the clearing house. He imposes and collects fines from the members for the violation of clearing-house rules and acts as secretary of all the committees when they meet at the clearing house.

Although the constitution provides for the appointment of a manager annually, it is the custom to retain the same one in office year after year. As a fact, there have been only three managers in the whole history of the association. The first, George D. Lyman, served until 1864, when he was succeeded by William A. Camp, who, after a long and honorable career of twenty-eight years as manager, resigned in 1892, and William Sherer, who had been assistant manager, was appointed to succeed him. The present assistant manager is William J. Gilpin.

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The various committees of the clearing house embrace the clearing-house committee, the conference committee, the committee on admissions, the nominating committee, and the arbitration committee. Each committee consists of five members. The first three committees were provided for in the constitution originally adopted. The committee on arbitration was proposed in an amendment January 11, 1855, by George Curtis, who drafted the constitution. This amendment was subsequently adopted. On September 22, 1871, the nominating committee was created by resolution. Besides these, a loan committee has been appointed on special occasions, whose functions are described in the chapter on clearing-house loan certificates.

The clearing-house committee is clothed with almost absolute power, being second in authority only to the association itself. The ablest and most experienced bank officers, therefore, are usually chosen to serve on it. The committee is elected annually, and is charged with the responsibility of equipping the clearing house with furniture, providing fuel, stationery, and whatever else is necessary for the convenient transaction of its business, of appointing a manager and his subordinates, of establishing rules and regulations to be observed at the clearing house not provided for in the constitution, always, however, subject to the approval of the association, and of generally supervising the clearing-house affairs. This committee has charge of the funds belonging to the association and draws on each bank for its quota of expenses. At the first meeting of the association after the election of the

National Monetary Commission

committee it submits detailed estimates of the expenditures that will be required for the clearing house during the current year. It fixes the salaries of the clerks and approves the bonds which are required before they can enter upon their duties. It has power to remove the manager or any of the clerks whenever it may deem it for the best interests of the association so to do. The committee is also empowered to examine, if necessary, any member of the association, and to require therefrom securities of such an amount and character as may appear to it to be sufficient for the protection of the balances resulting from exchanges at the clearing house. By resolution adopted October 14, 1890, this committee is empowered to permit or refuse to any member the privilege of clearing for an outside institution.

The conference committee is annually elected, and its function is, in concurrence with the clearing-house committee, to suspend any bank from the privileges of the clearing house, in cases of extreme necessity, until the pleasure of the association is ascertained thereon. No such suspension, however, can take place unless a majority at least of each of these two committees is present at the ordering thereof, or unless the vote be unanimous. In case of suspension the committee is required to call a general meeting of the association to take the matter into consideration.

The committee on admissions is elected at each annual meeting, and the clearing-house committee refers thereto for examination all applications for admission into the association.

C l e a r i n g - H o u s e M e t h o d s

The nominating committee is also elected annually, and its duty is to present to the association at each annual meeting the names of candidates for president and secretary of the association and for members of the clearing house, nominating, conference, and arbitration committees and committee on admissions, on the following basis: The president and secretary are eligible for two successive years, and after an interval of one year they are again eligible in like manner. There must be selected every year at least two new members on each of the committees (having still three old members), and those who have been longest on the committees must go off first. If all have been on the same length of time, then two must go off by lot. After an interval of one year such members are again eligible.

The function of the arbitration committee is to hear and determine all disputes submitted to it by both parties thereto, one or both of which are members of the association. It is the duty of this committee also to record a brief abstract of each case referred to it, together with its decision thereon, in a book provided for that purpose which is kept at the clearing house, open to the inspection of all the members.

The association at present (1909) consists of 50 members (32 national banks and 18 state banks) and the United States subtreasury located at New York. The latter makes its exchanges only at the clearing house, its balances being settled at its own counter. It has no voice in the government of the association, and pays a nominal sum for actual expenses. The privilege which

National Monetary Commission

the subtreasury enjoys of making its exchanges through the clearing house is a matter of great accommodation both to the subtreasury and to the banks. The New York post-office clears through one of the members, but renders no compensation to the association for the privilege.

The membership of the association since its organization has been constantly changing, owing to the admission and expulsion of members and voluntary withdrawals, as provided by the constitution.

The association began with 51 members, but by 1858 the list had declined to 46, the lowest number in the history of the clearing house. A membership of 67 was attained in 1895.

On February 28, 1854, the Bank of the Union was expelled and the clearing-house association was authorized to return to it whatever amount was necessary to offset its advances toward the expenses of the clearing house. In the following December the Empire City Bank was expelled and a similar resolution was passed but in no case thereafter were any such refunds made.

The association came into existence, as has been stated, in 1853, but it was not until February 29, 1856, that the first additional bank was admitted, four banks having been expelled in the meantime. The list continued to vary from time to time at irregular intervals, until at present there is one less member than when the association started.

The constitution is very explicit in its terms governing the admission and conduct of members. Applicants are

Clearing - House Methods

first considered by the clearing-house committee and referred hence to the committee on admissions. The latter committee, if, in its opinion, after a careful examination, the applicants are qualified for membership, refers them to the association for final action, a three-fourths vote of those present being necessary to admission. Banks may be elected to membership at any meeting of the association, but before being considered by the clearing-house committee each applicant must be shown to have an unimpaired capital or an unimpaired capital and surplus of at least \$500,000. Each new member is required to signify its assent to the constitution, in the same manner as the original members, and pay an admission fee, according to capital, as follows: A bank the capital of which does not exceed \$5,000,000 must pay \$5,000; a bank the capital of which exceeds \$5,000,000 must pay \$7,500. Any member increasing its capital is required to pay in accordance with those rates.

The admission charges have not always been the same. The original members paid no admission fee. In the constitution, as originally adopted, the rate was fixed at \$500. This was raised to \$1,000 by an amendment adopted October 11, 1854. Under the constitution, as revised in 1865, the fees were based on the capital as follows: For banks whose capital did not exceed \$500,000 the rate was fixed at \$1,000; for those whose capital did not exceed \$1,000,000, at \$2,000; for those whose capital did not exceed \$2,000,000, at \$3,000; for those whose capital did not exceed \$3,000,000, at \$4,000; for those

National Monetary Commission

whose capital did not exceed \$5,000,000, at \$5,000; and for those whose capital exceeded \$5,000,000, at \$7,500. On October 3, 1893, the amendment was adopted, fixing the rates on the present basis.

The power of expulsion is lodged in the association, but can be exercised only by a majority vote of all the members. The power of suspension is vested jointly in the conference and the clearing-house committees. Any member may withdraw at pleasure after paying its due proportion of all expenses incurred and signifying its intention to withdraw to the clearing-house committee.

There were some 57 banks in operation in New York when the clearing house was organized, and all but 5 came into the association, those remaining outside being small institutions. Subsequently two or three of these applied for admission, but inasmuch as they were not deemed capable of meeting the requirements imposed upon the existing members, they were rejected. At the present time only about 45 per cent of the financial institutions of the city, which included national banks, state banks, and trust companies, are members or nonmembers clearing through members of the clearing-house association.

In New York and vicinity are 32 banks and trust companies nonmembers, as compared with the 50 members. The nature of the business of the nonmembers, however, quite as much as that of the member banks, demands that their exchanges go through the clearing house, and hence each such bank or trust company makes a special arrangement with some member to act as its clearing agent, upon

Clearing - House Methods

such terms of security as they may agree upon. As above stated, there are 32 outside institutions at the present time making their exchanges in this way.

At the beginning, the subject of clearing for nonmembers naturally did not attract much attention, but as the city grew in business importance and its banks increased in power and numbers, it began to be more seriously considered. Several amendments were made to the constitution, designed to regulate the action of nonmembers and determine their relation to members. On January 11, 1855, George Curtis, to whom reference has already been made as the author of the constitution, proposed the first amendment on this subject, which was subsequently adopted as follows:

“Whenever exchanges shall have been made at the clearing house, by previous arrangement between members of the association, through one of their number and banks in the city and vicinity who are not members, the receiving bank at the clearing house shall in no case discontinue the arrangement without giving previous notice, which shall not take effect until the exchanges of the morning following the receipt of such notice shall have been completed.”

It will be observed that no provision is made for the protection of banks against the insolvency of nonmembers, but that the clearing member is made responsible for the items drawn upon the nonmember, and is prevented from discontinuing such responsibility until the exchanges are completed on the day following the receipt of such

National Monetary Commission

notice. The next resolution on the subject was adopted ten years later, and is as follows:

Resolved, That no member of the clearing-house association shall be allowed to make the exchanges for or redeem the notes or checks of any other bank or banks, not members of said association, without first giving notice, over the signature of one of its officers, of the fact of such redemption; nor shall such redemption be discontinued but upon notice in the manner prescribed by section 25 of the constitution.

Here for the first time a requirement was made of the banks that they should give notice of their intention to clear for nonmembers. Again, in the same year, another amendment followed. Thus:

Whenever any member of the association shall send through the clearing house, exchanges of any bank or banks in the city or vicinity who are not members, such sending shall *ipso facto* and without further notice constitute said member the agent for said bank or banks at the clearing house; and said member shall be liable in the premises, the same as for its own transactions, and its liability in all such cases shall continue until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of any such agency.

This virtually repealed the former resolution requiring notice of the creation of a clearing agency. It continued the requirement of a previous notice before discontinuing such agency, and clearly established the measure of liability of the clearing member for the items of the non-member. As if to reenforce the above resolution, another was adopted in May of the following year, as follows:

Resolved, That the liabilities of banks in the clearing house doing business for the banks in the vicinity are, under the amendment to the constitution, passed April 26, 1865, the same as for their own transactions.

Clearing for nonmembers continued for nearly a quarter of a century without further regulation. Finally, in 1890, new troubles arose from the failures of two small banks clearing through member banks and the looting of the

C l e a r i n g - H o u s e M e t h o d s

Sixth National Bank, a member. Accordingly, the whole subject of clearing for nonmembers was most carefully investigated and considered. Many favored its discontinuance altogether, and finally the subject was referred to a committee. A majority of the committee reported in favor of discontinuance, and a minority in support of the prevailing plan. The association adopted the views of the minority and voted to continue on the existing basis. This led to the following resolution, adopted October 14, 1890:

Resolved, That on and after January 1, 1891, this association permits its members to make such exchanges only after the consent of the clearing-house committee is obtained; and the banks or parties have obligated themselves to pay to the clearing-house association an annual payment of two hundred dollars, and also to consent to the same examinations as are now required of its members: *Provided, however*, That nothing contained in this resolution is construed as making such banks or parties members of the association.

Thus, discretion regarding the clearing for nonmembers was taken out of the hands of the members and transferred to the clearing-house committee, and for the first time nonmembers were required to pay to the association a definite sum in consideration of the privileges extended to them. Again, on December 21, 1896, the constitution was amended as follows:

Resolved, That the amendment to the constitution adopted October 14, 1890, assessing banks and others not members of this association, and clearing through members, \$200 annually, be amended by increasing such amount to \$500 annually, this amendment to take effect on and after January 1, 1897.

Later, the amount was still further increased to \$1,000, at which figure it still stands.

A resolution was also passed, to take effect on the same date, requiring all banks, not members of the association,

National Monetary Commission

whose checks are exchanged at the clearing house, to furnish the manager weekly statements of their condition, showing the average amount of their loans, discounts, and investments; specie, legal-tender notes, and bank notes; deposit with clearing-house agent, deposit with other New York City or Brooklyn banks and trust companies, net deposits and circulation. These statements were intended for the records of the clearing house and not for publication; but a resolution was subsequently passed requiring that they be published, beginning with the first Saturday in November, 1897.

Thus it will be seen that by resolutions and amendments covering nearly the whole period of its history, the New York Clearing House Association has been developing the present system, regulating the conduct of those outside institutions, which enjoy the privileges of the clearing house.

The relationship of trust companies to the clearing house, particularly in view of the number of trust companies organized and entering upon business during the few years prior to, and including, 1899, had been a subject for careful consideration on the part of the management. A subcommittee of the clearing-house committee was appointed October 26, 1899, to inquire into the matter and make a report. The report of this subcommittee, the substance of which is given below, was adopted at a meeting of the association held on the 3d of November, 1899.

The report at the outset recites that the constitution of the association, particularly the amendment of October 14, 1890, imposes upon the committee the responsibility

C l e a r i n g - H o u s e M e t h o d s

of consenting to the clearings by banks and trust companies not members of the association. The report then continues, that in the opinion of the subcommittee general and uniform rules should from time to time be adopted. Therefore, the following were recommended:

No trust company shall be permitted to clear through any member or nonmember of this association, unless such trust company shall have been in operation for at least one year at the time of making the application.

No trust company shall be cleared by any bank or trust company, member or nonmember of this association, until it shall have been examined by the clearing-house committee or some other committee of the association duly appointed for that purpose.

Every trust company clearing through a member of this association, or which may hereafter be permitted to clear through such member, shall furnish a weekly statement of its condition to the manager of this association, in the same manner as weekly statements of nonmember banks clearing through this association are now rendered. Such statements shall include: Capital; net profits; average amount of loans, bills purchased, and investments (not real estate); average amount of specie; average amount of legal-tender notes and bank notes; average amount on deposit with other New York City banks and trust companies; average amount of deposits.

In the notice sent out by the manager of the clearing house November 6, 1899, embodying the foregoing, it was asserted that the statements required of the trust companies were not for the present intended for publication. The form of statement provided for use in this connection is given among the illustrations.

At the meeting of the clearing-house committee above referred to, it was resolved that from that date forward every statement of averages submitted to the clearing house by a member or nonmember should be verified and signed by an officer.

Most of the important trust companies in the city, under the new provisions, became associated with the clearing house as nonmembers.

National Monetary Commission

New York,

*At a meeting of the * Board of Directors of the*

.....
*of held
the following resolution was adopted:*

“Resolved: That this Board hereby agrees to the payment of One Thousand (\$1000) Dollars per annum, for the purpose of making its exchanges through a Bank, member of the New York Clearing-house Association.

“And this Board also consents to the same examinations of this as are now required of members of the Clearing-house Association.”

.....
** This title may be changed to read
“Board of Trustees, Executive Committee, &c.,” as necessary.*

RESOLUTION AUTHORIZING EXCHANGES THROUGH A MEMBER BANK.

C l e a r i n g - H o u s e M e t h o d s

New York, _____ *19*

Chairman Clearing-house Committee

Dear Sir:

The _____
of _____ *hereby applies*
for consent of the Clearing-house Committee to make the
Exchanges for _____

of _____ *on and after* _____

Statement of its condition enclosed.

Respectfully,

Approved _____

APPLICATION TO CLEAR FOR ANOTHER BANK.

National Monetary Commission

New York Clearing-house,

Nos. 77-83 CEDAR STREET.

New York,.....

.....*Esq., Cashier.*

Dear Sir:

*Consent of the Clearing-house Committee is hereby
given to the.....
of.....to make the exchanges at the
New York Clearing-house for the.....
of.....on and after.....
subject to the rules and regulations of the Association.*

By order of.....
Chairman Clearing-house Committee.

.....*Manager.*

CONSENT TO CLEAR FOR ANOTHER BANK.

Clearing - House Methods

254746

NEW YORK CLEARING-HOUSE.

The Weekly Statement as provided for below must be certified by an officer and sent to the Clearing-house at the close of business on Friday of each week.

WILLIAM SHERER,
Manager.

COPY OF STATEMENT

OF THE

.....for week
ending the.....day of.....190....
as required by Amendment to Section 25 of the Constitution of the
New York Clearing-house Association, adopted February 11th, 1903.

Average Amount of Loans, and Discounts and Investments (not Real Estate)			
Average Amount of Specie.....			
Average Amount of Legal Tender Notes and Bank Notes.....			
Average Amount on Deposit with Clear- ing-house Agent.....			
Average Amount on Deposit with other New York City Banks and Trust Companies.....			
Average Amount of Deposits.....			
Average Amount of Circulation.....			

Correct.....

FORM OF STATEMENT OF WEEKLY AVERAGES OF NON-MEMBER
BANKS.

National Monetary Commission

254747

The Weekly Statement as provided for below must be certified by an officer and sent to the Clearing-house at the close of business on Friday of each week.

WILLIAM SHERER,
Manager.

COPY OF STATEMENT

OF THE,

.....for week
ending the.....day of.....190....
as required by Amendment to Section 25 of the Constitution of the
New York Clearing-house Association, adopted February 11th, 1903.

Average Amount of Loans, Bills Purchased and Investments (not Real Estate).....			
Average Amount of Specie.....			
Average Amount of Legal Tender Notes and Bank Notes.....			
Average Amount on Deposit with other New York City Banks and Trust Companies.....			
Average Amount of Deposits.....			

Correct.....

FORM OF STATEMENT OF WEEKLY AVERAGES FOR TRUST COMPANIES.

C l e a r i n g - H o u s e M e t h o d s

The arrangement thus consummated, however, was to last but a few years. The New York state banking law at that time did not require that trust companies should carry any cash reserve, while it provided for the keeping by state banks of a cash reserve in their own vaults of 15 per cent. It was tacitly understood that a cash reserve of 25 per cent should be maintained by all the members of the New York Clearing House Association, although there was then no constitutional provision to that effect. This understanding did not, however, extend to nonmembers, with the result that the state banks, generally speaking, merely met the requirement of the law, viz, 15 per cent, and the trust companies used their discretion.

As will be readily observed, the trust companies, operating under broad charters which gave them the privilege of transacting a banking business, of which by far the greater number took advantage, and with, as before stated, no reserve requirement, had an immense advantage over the members of the clearing house, and were thereby enabled to make considerable inroads into their business.

This condition of affairs caused a great deal of dissatisfaction among the associated banks, which culminated in an effort on the part of the association to more nearly equalize the position of the banks and trust companies, which took the form of the following resolution, enacted into law on February 11, 1903:

Every nonmember institution (not a bank required by law to maintain a specified reserve) now or hereafter sending its exchanges through a member of the association, shall on and after June 1, 1903, keep in its

National Monetary Commission

vaults a cash reserve equal to 5 per cent of its deposits; and on and after February 1, 1904, such cash reserve shall be $7\frac{1}{2}$ per cent of its deposits, and on and after June 1, 1904, such cash reserve shall be such percentage as shall from time to time be fixed by the clearing-house committee, but not less than 10 nor more than 15 per cent of its deposits. The reserve hereby required shall be an average reserve as against the average deposits as shown upon its weekly statements.

The trust companies resented very strongly this attempt to force them to keep a cash reserve, and during the next two years, almost without exception, withdrew from the privileges of the clearing house, rather than submit to its regulations in this regard, manifestly fair though they were.

After the panic of 1907, the attitude which the New York clearing house had assumed on this question was justified, when the legislature of the State of New York enacted a law compelling the trust companies in New York to keep a cash reserve of 15 per cent, thus placing them on an equal basis, in this respect, with state banks.

In the meantime, on January 13, 1908, the clearing-house association met and passed the following resolutions, which still obtain and determine the conditions under which the trust companies may, at the present time, become full members of the association, the same as banks:

Trust companies organized under the laws of the State of New York may be admitted as members of this association in the same manner and to the same extent as banks may be admitted, and when so admitted shall be entitled to all the rights and benefits and subject to all the conditions and obligations to which bank members are or shall be entitled or subject under the provisions of the constitution.

Trust companies, however, becoming members of the association, shall be required to keep a cash reserve in their own vaults of not less than 25 per cent of their deposits. A failure to keep such reserve shall be sufficient ground for action under section 6, Article III, of the constitution (which provides for expelling members).

C l e a r i n g - H o u s e M e t h o d s

Three days later, viz, January 16, 1908, the association for the first time in its history passed a measure which thereafter compelled all its members to keep and maintain in their own vaults a cash reserve of 25 per cent of their net deposits.

Each bank belonging to the New York Clearing House Association is required to furnish to the manager weekly, for publication, a statement of its condition, showing the average amount of loans and discounts, specie, legal-tender notes, circulation, and deposits. The capital and net profits also are given, this being the only association which gives the latter item.

The matter of collecting checks and other items outside of the city of New York is a subject that for many years past has received most careful thought upon the part of the officers and members of the New York clearing house. An amendment to the constitution was adopted, March 13, 1899, directly bearing upon this point and embodying a policy that was so radical as not only to attract attention throughout the entire financial community, but at the outset to incite more or less opposition. As time has passed, however, the justness of the provisions has become apparent and the business community has acquiesced in what is manifestly an entirely reasonable measure.

TRUST COMPANIES.			
RESOURCES.			
Bonds & Mortgages.....			
Stocks & Bonds (Market Value):			
Public Securities			
Other Securities.....			
Loans			
Overdrafts.....			
Real Estate, Furniture & Fixtures.....			
Due from Trust Cos., Banks and Bankers			
Specie.....			
Legal Tenders and Bank Notes.....			
Other resources			
TOTAL			
Book Value Stocks and Bonds.....			
LIABILITIES.			
Capital			
Surplus and Undivided Profits.....			
Due Trust Cos., Banks and Bankers.....			
Deposits (Not Preferred).....			
Certificates of Deposit (Not P'f'd).....			
Preferred Deposits			
Other Liabilities			
TOTAL			

180

Clearing-House Methods

NATIONAL BANKS.

No
254007

LIABILITIES.			
Capital .....	.....	.....	.....
Net Profits .....	.....	.....	.....
Circulation .....	.....	.....	.....
Due Banks and Trust Co's .....	.....	.....	.....
Due other Depositors .....	.....	.....	.....
Unpaid Dividends .....	.....	.....	.....
Bonds Borrowed .....	.....	.....	.....
.....			
TOTAL .....	.....	.....	.....
RESOURCES.			
Loans and Discounts .....	.....	.....	.....
U. S. Bonds on hand .....	.....	.....	.....
U. S. Bonds to secure circulation .....	.....	.....	.....
Bonds to secure U. S. Deposits .....	.....	.....	.....
Other Stocks and Bonds and Mtgs. ....	.....	.....	.....
Premium on U. S. Bonds .....	.....	.....	.....
Real Estate, Furniture & Fixtures .....	.....	.....	.....
Due from Banks and Bankers .....	.....	.....	.....
Exchanges for Clearing-house .....	.....	.....	.....
Cash Items and Bank Notes .....	.....	.....	.....
Specie .....	.....	.....	.....
Legal Tenders .....	.....	.....	.....
Over Drafts .....	.....	.....	.....
.....			
TOTAL .....	.....	.....	.....
Certified Checks .....	.....	.....	.....
United States Deposits .....	.....	.....	.....
.....			

FORM USED AT CLEARING-HOUSE IN TABULATING NATIONAL BANK
STATEMENTS.

National Monetary Commission

STATE.			
No. 25-4008			
LIABILITIES.			
Capital.....			
Net Profits.....			
Due Trust Cos., Bks., Bkrs. & Broks.			
Due other Depositors not Pfd.....			
Preferred Deposits.....			
Unpaid Dividends.....			
.....			
TOTAL.....			
RESOURCES.			
Loans and Discounts.....			
Stocks, Bonds and Mortgages.....			
Real Estate, Furniture & Fixtures..			
Due from Trust Cos., Bks., Bkrs..			
& Broks. not incl'd in next item.			
Due from Approved Reserved De-			
positories.....			
Cash Items including Exchanges for			
Clearing-house.....			
Specie.....			
Legal Tenders and Bank Notes....			
Over Drafts.....			
.....			
TOTAL			

FORM USED AT CLEARING-HOUSE IN TABULATING STATE BANK
STATEMENTS.

STATEMENT OF THE ASSOCIATED BANKS OF THE CITY OF NEW YORK

From Reports to the New York Clearing-house, as required under Article III of its Constitution.

FOR WEEK ENDING SATURDAY, JULY 24, 1909.

NOS.	BANKS.	*CAPITAL.	*NET PROFITS	LOANS AND DISCOUNTS. Average	SPECIE. Average	LEGALS. Average	DEPOSITS. Average	CIRCULATION Average	NOS.
1	Bank of N. Y. Nat'l Bkg. Assoc'n.								1
2	Bank of the Manhattan Company								2
3	Mechanics' National Bank								3
4	Bank of America								4
6	N. Y. Produce Exchange Bank.								6
92	State Bank								92
96	Fourteenth Street Bank.								96
97	National Copper Bank.								97
98									98
	TOTAL NATIONAL BANKS	\$110,400,000	\$146,067,700						
	TOTAL STATE BANKS.	15,950,000	28,382,400						
	Totals. Average.	126,350,000	174,450,100	1,349,259,700	309,435,900	81,552,800	71,426,789,900	49,398,800	
	*As per official reports.			Increase	Increase	Increase	Increase	Increase	
	31 National, June 23, 1909.								
	18 State, Apr. 28, 1909.								
	Reserve on Average Deposits, Decrease \$277,975			3,673,200	193,200	358,100	3,317,100	139,600	
	†United States Deposits included, \$1,727,200								
	Percentage of Reserve to Average Deposits other than U. S.: 27.43								
	Actual figures this morning:			1,355,660,200	307,971,100	83,011,000	1,432,787,300	49,389,400	
				Increase	Increase	Increase	Increase	Decrease	
				10,944,300	960,800	791,300	11,512,200	15,100	
	Reserve on Actual Deposits, Decrease \$1,125,950								
	†United States Deposits included, \$1,733,700								
	Percentage of Reserve to Deposits other than U. S. on actual figures: 27.31								
	Clearings for "Week ending July 24, 1909,	\$1,891,913,569.68	Balances for Week ending July 24, 1909,	\$81,699,967.34					
	" " " " " " " "	1,782,988,545.30	" " " " " " " "	80,569,041.37					
	Clearings this Day	290,606,550.94	Balances this Day	10,399,825.53					

SKELETON OF WEEKLY STATEMENT OF THE ASSOCIATED BANKS OF THE CITY OF NEW YORK.

NEW YORK CLEARING-HOUSE.

The Weekly Statement as provided for below must be certified by an officer and sent to the Clearing-house before 11 o'clock A. M. on each Saturday.

WILLIAM SHERER,
Manager.

COPY OF STATEMENT

OF THE

ending the day of for week
 as required by Section 16 of the Constitution of the New York Clearing-house Association. 190.....

	DAILY AVERAGE.				ACTUAL ON ABOVE DATE.
Amount of LOANS AND DISCOUNTS. (Loans, Discounts and Stocks and Bonds and Mortgages owned by the Bank.)					
Amount of SPÉCIE. (Gold and Silver Coin, United States and Clearing-house Gold Certificates, and United States Silver Certificates.)					
Amount of LEGAL TENDER NOTES. (United States Legal Tender Notes of all issues.)					
Amount of DEPOSITS, other than United States. (Gross Deposits and Unpaid Dividends, less Exchanges for the Clearing House, Amounts due from other banks for collection, Notes of other banks, and Checks on nonclearing institutions in this City.)					
Amount of UNITED STATES DEPOSITS					
Total of U. S. and OTHER DEPOSITS					
Amount of CIRCULATION. (Amount outstanding.)					

Correct.....

NEW YORK CLEARING-HOUSE.

Total

Total

Aggregate Reserve on Deposits \$

Percentage of Legal Reserve

crease.

FORM OF SUMMARY OF WEEKLY STATEMENT OF ASSOCIATED BANKS.

20040—10. (To face page 184.) No. 1.

NEW YORK CLEARING-HOUSE.

SUMMARY OF WEEKLY STATEMENTS.

Week ending,

CLEARING-HOUSE BANKS, DAILY AVERAGE

Loans,	\$							crease.
Specie,								crease.
Legal Tenders,								crease.
*Deposits,								crease.
Circulation,								crease.
RESERVE ON ALL DEPOSITS,	\$							crease.
RESERVE ON DEPOSITS OTHER THAN U. S.	\$							crease.
CASH RESERVE %								*U. S. Deposits included \$.....

CLEARING-HOUSE BANKS, ACTUAL CONDITION THIS DAY

Loans,	\$							crease.
Specie,								crease.
Legal Tenders,								crease.
†Deposits,								crease.
Circulation,								crease.
RESERVE ON ALL DEPOSITS;	\$							crease.
RESERVE ON DEPOSITS OTHER THAN U. S.	\$							crease.
CASH RESERVE %								†U. S. Deposits included \$.....

Clearings for the week							
Balances " " "							
Clearings this day							
Balances " "							

SUMMARY OF STATE BANKS AND TRUST COMPANIES IN GREATER NEW YORK, NOT REPORTING TO THE NEW YORK CLEARING-HOUSE

Loans,	\$							crease.
Specie,								crease.
Legal Tenders,								crease.
Total Deposits,								crease.
Do — Eliminating amounts due from Reserve Depositories and from other Banks and Trust Companies in New York City.								crease.

STATE BANKS RESERVE TRUST COMPANIES

PER CENT.

PER CENT.

Cash in Vault					Cash in Vault				
Deposits in Banks and Trust Co's,					Deposits in Banks and Trust Co's,				
Total					Total				

Aggregate Reserve on Deposits \$ crease.

Percentage of Legal Reserve

FORM OF SUMMARY OF WEEKLY STATEMENT OF ASSOCIATED BANKS.

NEW
BOROUGHs OF

Bank of Wash
Century Bank
Colonial Bank
Columbia Bank
Fidelity Bank

Jefferson Bank
Mount Morris
Mutual Bank
Plaza Bank...
Twenty-third

Union Exchange
Yorkville Bank
Coal and Iron
New Netherlands
Battery Park

Aetna National

BOROUGHs OF

Broadway Bank
Manufacturer
Mechanics' Bank
Nassau National
National City
North Side Bank

JERSEY

First National
Hudson County
Third National

INDIANA

First National
Second National

TOTAL

"

Totals.....
*As per official
12 National Banks
15 State Banks
Reserve, \$1,500,000
*As of July 1, 1900

NEW YORK CLEARING-HOUSE

Weekly Statement of NON-MEMBER BANKS, for Week ending Saturday, July 24, 1909

BANKS	*CAPITAL	*NET PROFITS	AVERAGE AMOUNT OF LOANS AND DISCOUNTS AND INVESTMENTS	AVERAGE AMOUNT OF SPECIE	AVERAGE AMOUNT OF LEGAL TENDER NOTES AND BANK-NOTES	AVERAGE AMOUNT ON DEPOSIT WITH CLEARING-HOUSE AGENT	Average Amount on Deposit with other New York City Bank and Trust Co's	AVERAGE AMOUNT OF NET DEPOSITS	AVERAGE AMOUNT OF CIRCULATION
NEW YORK CITY.									
BOROUGH OF MANHATTAN AND THE BRONX.									
Bank of Washington Heights.....									
Century Bank.....									
Colonial Bank.....									
Columbia Bank.....									
Fidelity Bank.....									
Jefferson Bank.....									
Mount Morris Bank.....									
Mutual Bank.....									
Plaza Bank.....									
Twenty-third Ward Bank (Bronx)...									
Union Exchange National Bank.....									
Yorkville Bank.....									
Coal and Iron National Bank.....									
New Netherland Bank.....									
Battery Park National Bank.....									
Aetna National Bank.....									
BOROUGH OF BROOKLYN.									
Broadway Bank.....									
Manufacturers' National Bank.....									
Mechanics' Bank.....									
Nassau National Bank.....									
National City Bank.....									
North Side Bank.....									
JERSEY CITY.									
First National Bank, Jersey City.....									
Hudson Co. Nat. Bank, Jersey City...									
Third Nat'l Bank, Jersey City.....									
HOBOKEN.									
First National Bank, Hoboken.....									
Second National Bank, Hoboken.....									
TOTAL NATIONAL BANKS.....	\$4,997,000	\$7,255,800							
" STATE BANKS.....	4,150,000	5,314,100							
Totals.....	9,147,000	12,569,900	\$99,929,800	\$7,510,900	\$10,044,300	\$12,147,000	\$4,349,000	\$116,600,600	\$2,448,400
*As per official reports.— 12 National Banks, June 23, 1909. 15 State Banks, April 28, 1909.			Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Increase
Reserve, \$1,546,775 Decrease.			252,000	367,100	531,900	1,031,300	401,100	3,138,500	50,400
*As of July 16, 1909.									

SKELTON OF WEEKLY STATEMENT OF NON-MEMBER BANKS.

Clearing - House Methods

The amendment to the constitution, being an addition to section 8, was as follows:

The clearing-house committee shall have power to establish rules and regulations regarding collections outside of the city of New York, by members of the association or banks or trust companies or others clearing through such members, and the rates to be charged for such collections, and also providing for enforcement of the same. The committee may from time to time make any additions to, or changes in, such rules and regulations as it deems judicious. After any rule or regulation upon the subject has been once established, it shall not, however, be altered or rescinded until it has been in force at least three months, except by majority vote of the clearing-house association.

Under this amendment the following rules and regulations regarding collections outside of the city of New York were adopted by the clearing-house committee:

Pursuant to authority conferred upon it by the constitution of the New York Clearing House Association, the clearing-house committee of said association establishes the following rules and regulations regarding collections outside of the city of New York, by members of the association, or banks, trust companies, or others clearing through such members, and the rates to be charged for such collections and also regarding enforcement of the provisions hereof.

SECTION 1. These rules and regulations shall apply to all members of the association, and to all banks, trust companies, or others clearing through such members. The parties to which the same so apply are hereinafter described as collecting banks.

SEC. 2. For [items collected for the accounts of, or in dealings with the governments of the United States, the State of New York, or the city of New York, and for items payable in the cities of Boston, Mass.; Providence, R. I.; Albany, N. Y.; Troy, N. Y.; Jersey City, N. J.; Bayonne, N. J.; Hoboken, N. J.; Newark, N. J.; Philadelphia, Pa.; and Baltimore, Md., the charge shall in all cases be discretionary with the collecting bank, and the same shall not be governed by the provisions of these rules and regulations.

SEC. 3. For all items from whomsoever received (except on those points declared discretionary in sec. 2), payable at points in Connecticut, Delaware, District of Columbia, Indiana, Illinois, Kentucky, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, and Wisconsin, the collecting banks shall charge not less than one-tenth of 1 per cent of the amount of the items, respectively.

National Monetary Commission

SEC. 4. For all items from whomsoever received, payable at points in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Indian Territory, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming, and Canada, the collecting banks shall charge not less than one-quarter of 1 per cent of the amount of the items, respectively.

SEC. 5. In case the charge upon any item at the rates above specified does not equal 10 cents, the collecting bank shall charge not less than that sum; but all items received from any one person at the same time and payable at the same place may be added together and treated as one item for the purpose of fixing the amount chargeable.

SEC. 6. The charges herein specified shall in all cases be collected at the time of deposit or not later than the 10th day of the following calendar month. No collecting bank shall, directly or indirectly, allow any abatement, rebate, or return for or on account of such charges or make in any form, whether of interest on balances or otherwise, any compensation therefor.

SEC. 7. Every collecting bank, trust company, or other corporation not a member of the association, but clearing through a member thereof, shall forthwith adopt by its board of directors a resolution in the following terms, and file a certified copy thereof with the association as evidence as therein specified:

Whereas this corporation has acquired the privilege of clearing and making exchange of its checks through the New York Clearing House Association, and is subject to its rules and regulations: Now, therefore,

Be it resolved, That this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the city of New York which may be established pursuant to the constitution of said association, and that the president of this corporation is hereby instructed to file a certified copy of this resolution with the clearing-house association as evidence of such assent and agreement on the part of this corporation.

SEC. 8. In case any member of the association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the chairman of the clearing-house committee, or, in his absence, to the manager of the association. Upon receiving information from any source that there has been a violation of the same, said chairman, or, in his absence, said manager, shall call a meeting of the committee. The committee shall investigate the facts and determine whether a formal hearing is necessary. In case the committee so concludes it shall instruct the manager to formulate charges and present them to the committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall

Clearing - House Methods

be served upon the collecting bank charged with such violation, which shall have the right at the hearing to introduce such relevant evidence and submit such argument as it may desire. The committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted, and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the committee shall call a special meeting of the association and report thereto the facts with its conclusions. If the report of the committee is approved by the association, the collecting bank charged with such violation shall pay to the association the sum of \$5,000, and in case of a second violation of

.....	1899.
I hereby certify, that, at a meeting of the Board of Directors of.....	
.....	of.....held
.....1899, the following preamble and resolution were adopted:	
Whereas this corporation has acquired the privilege of clearing and making exchange of its checks through the New York Clearing House Association, and is subject to its rules and regulations: Now, therefore,	
<i>Be it resolved,</i> That this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the city of New York which may be established pursuant to the constitution of said association, and that the president of this corporation is hereby instructed to file a certified copy of this resolution with the clearing-house association as evidence of such assent and agreement on the part of this corporation.	
[SEAL.]	.....

AGREEMENT TO COMPLY WITH RULES AND REGULATIONS REGARDING COLLECTIONS OUTSIDE OF NEW YORK.

these rules and regulations any collecting bank may also, in the discretion of the association, be excluded from using its privileges, directly or indirectly, and, if it is a member, expelled from the association.

By resolution of the clearing-house committee, the foregoing resolutions went into effect on the 3d day of April, 1899.

Most complete and accurate records are kept at the New York clearing house of all the transactions, both of the exchanges between the banks and of all the important acts relating to the administration. Six permanent employees, subordinate to the manager and assistant man-

National Monetary Commission

ager, are required to perform these duties, the attention of the latter two being almost wholly occupied in work of an administrative character.

There are about twenty-five records, consisting of ledgers, statements, books, and registers. The most important are as follows: A record book containing a copy of the manager's proof sheet, showing the daily exchanges and balances of the several banks and the totals of the same; a ledger showing the exchanges and balances of each bank kept separately; the same being a compilation from the proof sheet; a registry book showing the balances received at the clearing house each day; a record of the kinds and amounts of money received in payments of balances by days, months, and years since 1882; a weekly statement record showing the weekly statements required from members for publication; the statements made in response to the call of the Comptroller of the Currency and the state superintendent of banks, compiled and recorded for the use of members of the association; an individual weekly bank statement introduced in 1892, being a compilation of the weekly statement by banks; a record of the increase and decrease in the items called for in the weekly statements; an annual record of comparative statements of footings of weekly statements; a record for the quarter begun in 1892, showing the resources, liabilities, dividends, and sales and book value of stock; a record of information, as complete as possible, regarding all the banks in New York City; a record of the issue of clearing-house certificates upon the deposit of gold coin; gold and silver certificates and legal-tender

C l e a r i n g - H o u s e M e t h o d s

notes and also upon the deposit of collateral security, with the loan committee when in session; a general statement of fines and corrections of clerks since 1877; a record of the returns, as far as possible, from the various clearing houses of the United States.

There are about ten other records of less importance, besides the usual ledger, journal, and cash-book, in which the clearing house keeps its own accounts and the records of the proceedings of the various committees.

CHAPTER XIV.

DAILY ROUTINE OF THE NEW YORK CLEARING HOUSE.

THE CLEARING ROOM—CLERKS AND MESSENGERS—THE MANAGER'S PART—HOW THE EXCHANGES ARE MADE—THE CASH BALANCE PAID IN—THE DISBURSEMENTS—CLEARING-HOUSE GOLD DEPOSITORY—RESTRICTIVE INDORSEMENTS—PRO RATING OF EXPENSES—RECORD OF FINES—TABLE OF ANNUAL CLEARINGS—TABLE OF AVERAGE DAILY BALANCES.

The clearing room of the New York clearing house is a beautiful and commodious apartment, 60 feet square, surmounted by a dome rising 25 feet above the walls. Light enters through the glass forming the upper part of the dome, and, when necessary, additional illumination is secured by the use of electric lights, which encircle the base of the dome. Four rows of desks occupy the floor, with sufficient space between for an easy movement of the clerks in delivering the exchanges. Each member has its own numbered desk, separated from the one on the right and left by network of wire. At the east end of the room is the manager's gallery, elevated sufficiently to command an easy view of the scene of operations. It is made accessible in front by steps and in the rear by an elevator.

Each business day, at 10 o'clock, the exchanges take place between the banks. About fifteen minutes before

C l e a r i n g - H o u s e M e t h o d s

the hour designated the clerks begin to arrive. Formerly it was the custom for each member to send only two clerks, but so numerous and cumbersome have become the exchanges of many of the banks that it is now necessary to send one and sometimes two extra clerks to assist in transporting the items to and from the clearing house and in delivering the packages.

The two essential representatives of each bank are the "delivery clerk" and the "settling clerk." The former delivers the packages brought, and the latter receives the return packages from the messengers of the other banks.

Each member sends its items for the other banks made out separately and inclosed in envelopes, with the amounts listed on the "exchange slip" attached to the exterior. On their arrival at the house the settling clerks furnish the proof clerk, sitting at his desk in the manager's gallery, with the "first ticket," upon which is entered the "amount brought" or "credit exchange," and which the latter transcribes on the clearing-house proof under the head of "Banks Cr." The total of the amounts thus brought by the several clerks constitutes the right-hand main column of that sheet. If each messenger has a package for each of the other banks, there are 2,500 in all to be delivered.

As a fact, in all other respects than the quantity of packages, this is the number of transactions between the clerks, for it is found in practice better to use a blank slip than to omit a slip merely because there is no amount to put upon it. This plan saves doubt and unnecessary

National Monetary Commission

searching when looking after the proof. The stationery used by each of the several banks is put up in sets in numerical order, and this is a reason why it is easier to use all the slips than to discard those which happen to have no items. Accordingly, as the delivery clerks pass the desks, as is described farther on, it is the rule to deposit the "small ticket" with the receiving clerk in each case, whether there is a package corresponding to it or not. When the settling clerks come to make their summing up, first checking back by the small tickets, they find that the blank spaces in their sheets are justified by the blank tickets of corresponding numbers, and are in this respect assured of the correctness of their work.

When the hand of the clock points to a few minutes before 10 o'clock the manager appears in his gallery, usually surrounded by a group of visitors. At one minute before 10 he sounds a gong as a signal for each of the clerks to station himself in his proper place. The settling clerks occupy their separate desks on the inside of the counter, while the delivery clerks form on the outside with their exchanges either on the left arm or carried in a box or case of some light material. The delivery clerks arrange themselves in the consecutive desk order, and stand ready for delivery as they pass along the counter. They carry "delivery clerks' receipts" containing the amounts for each bank arranged in order, upon which the several settling clerks, or their assistants, give receipts for the package delivered.

2d Teller.

No. 1.

BANK OF NEW YORK NAT'L BANKING ASSOCIATION

FROM No. 61.

THE FOURTH NATIONAL BANK.

.....1909

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FORM OF EXCHANGE SLIP.

No. 1.

BANK OF NEW YORK

NATIONAL BANKING ASSOCIATION.

From No. 61

Fourth National Bank.

\$

FAC-SIMILE OF "SMALL TICKET" DEPOSITED BY MES-
SENGER WITH SETTLING CLERK

National Monetary Commission

NEW YORK CLEARING-HOUSE.	
No. 61.	New York Clearing-house,
	_____ 1909
	Credit Fourth National Bank, \$ _____
	_____ Settling Clerk.

FORM OF "FIRST" OR CREDIT TICKET.

C l e a r i n g - H o u s e M e t h o d s

All are now in position for the exchange. The manager calls "ready," and promptly at 10 o'clock he sounds the gong again and the delivery of the packages begins. He looks down upon four columns of young men moving simultaneously like a military company in step. At the start each advances to the desk in front where his first delivery is to be made. He deposits the package of items and also the receipt slip on which the assistant of the settling clerk (or, in the case of small banks, the settling clerk himself) writes his initials opposite the amount of the package delivered in the blank space provided for that purpose. At the same time, in an opening in the desk provided for that purpose, he deposits a "small ticket" containing the amount of the package. If correct, it must agree with the amount listed on the "exchange slip." This process is repeated at the desk of all the banks, each clerk making the complete circuit in ten minutes to the point from which he started.

Being now at liberty, each delivery clerk takes back to his bank the exchanges deposited by the other messengers, while the settling clerks remain until the proof is made.

The settling clerks, immediately upon the completion of the exchange of packages, sum up, as quickly as possible, the amounts entered on their statements under the head of "Banks Dr." Upon ascertaining the total they make out a "second ticket," containing the credit and debit exchanges and the balance, and send the same to the "proof clerk," who transcribes the debit exchange under the head of "Banks Dr." (the credit exchange hav-

No. 61.

THE FOURTH NATIONAL BANK.

SETTLING CLERK'S RECEIPTS,

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No.	BANKS.	DR.	DR.	SIGNATURES.
1	Bank of N. Y. Nat'l B'k'g Ass'n,			1
2	Manhattan Company,			2
3	Merchants' National Bank,			3
4	Mechanics' National Bank,			4
6	Bank of America,			6
7	Phoenix National Bank,			7
8	National City Bank,			8
12	Chemical National Bank,			12
13	Merchants' Exchange Nat'l Bank,			13
14	Gallatin National Bank,			14
85	Seaboard National Bank,			85
91	Liberty National Bank,			91
92	N. Y. Produce Exchange Bank,			92
96	State Bank,			96
97	Fourteenth Street Bank,			97
98	National Copper Bank,			98
99				99
100				100

FORM OF SETTLING CLERK'S RECEIPTS.

No. 61. THE FOURTH NATIONAL BANK. **SETTLING CLERK'S STATEMENT,**

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No.	BANKS.	DEBIT	DEBIT	CREDIT	
1	Bank of N. Y. Nat'l B'k'g Ass'n,				1
2	Manhattan Company,				2
3	Merchants' National Bank,				3
4	Mechanics' National Bank,				4
6	Bank of America,				6
7	Phoenix National Bank,				7
8	National City Bank,				8
12	Chemical National Bank,				12
13	Merchants' Exchange Nat'l Bank,				13
14	Gallatin National Bank,				14
83	Bank of the Metropolis,				83
84	West Side Bank,				84
85	Seaboard National Bank,				85
91	Liberty National Bank,				91
92	N. Y. Produce Exchange Bank,				92
96	State Bank,				96
97	Fourteenth Street Bank,				97
98	National Copper Bank,				98
99					99
100					100
	FOOTINGS,				
	BALANCES				

FORM OF SETTLING CLERK'S STATEMENT.

National Monetary Commission

ing been already entered), and the balance on the credit or debit side, as the case may require.

While this is being done the settling clerks are checking back from the small tickets to ascertain whether the amounts agree with the amounts listed on their statements from the exchange slips. By this time the proof clerk has footed the four columns on his sheet, namely, the debit and credit exchanges and the debit and credit balances. If the former two agree with the latter two the work is correct, and the result is announced by the manager, who calls off credits and debits.

As he calls off these balances, which are named in thousands of dollars, the hundreds and fractional parts being omitted, the clerks list the amounts on a special slip provided for the purpose, and thereby secure a general report of the balances of the day to take back with them for the inspection of their several cashiers. By these reports the managers of the several banks are informed of those who have balances to be paid them by the clearing house, and also of those who are to pay amounts into the clearing house.

The time elapsed since the manager sounded his gong for starting the work up to the completion of the proof is perhaps forty-five minutes, or possibly a little more. Three-quarters of an hour is the limit before fines are in order against those who have made the errors that prolong the work, but it is not often that it becomes necessary to impose fines. The record time is thirty-five minutes, although the dates when the proof has been reached in thirty-seven to forty minutes from the time the delivery

Clearing-House Methods

No. 61.	New York Clearing-house,	
	_____ 1909.	
Debit FOURTH NATIONAL BANK, Am't rec'd, \$	_____	
Credit " " brought, \$	_____	
\$	Debit Balance Due Clearing-house.	
Cr. bal. due FOURTH NATIONAL BANK, \$	_____	
		_____ Settling Clerk.

New York Clearing-house.

FORM OF "SECOND" TICKET.

National Monetary Commission

clerks started on their rounds are numerous. When a particularly good showing in this regard has been accomplished the announcement of the result by the manager is very likely to be greeted with applause.

But suppose, as not infrequently happens, there is a discrepancy. The proof sheet does not balance, which clearly indicates that there is an error in the work of one or more of the clerks. The manager immediately announces the difference and the clerks proceed to search for it.

Various methods are resorted to, according to the nature of the difference. Usually the manager calls for an exchange of sheets, to the right or to the left, for examination of footings, and in cases of apparent error in entry the amounts are called back. This is the final method of revision, and if the additions are correct it must make the proof.

Thus far no money has entered into the transaction. Checks, notes, drafts, and other items have passed through the exchanges, but as yet no occasion has arisen for the use of a single penny. Evidently, however, the clearing is not yet complete. Each member has in its possession paper drawn upon itself which the other members have credited on their books, and likewise each member has given in exchange to each of the other members the paper drawn upon them, respectively, and which it has credited upon its own books. But the possibility is very remote that the amounts of the items delivered by any member to the other banks will exactly balance the sum total of the items received from them. Indeed, so slight

Clearing - House Methods

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NEW YORK CLEARING-HOUSE PROOF,

No.	BANKS	DEBIT BALANCES DUE CLEARING- HOUSE	DEBIT AMOUNTS RECEIVED BY BANKS	CREDIT AMOUNTS BROUGHT BY BANKS	CREDIT BALANCES DUE BANKS	
1	Bank of N. Y. Nat'l Bkg. Assoc'n					1
2	Bank of the Manhattan Company					2
3	Mechanics' National Bank					3
4	Mechanics' National Bank					4
6	Bank of America					6
7	Phenix National Bank					7
8	National City Bank					8
12	Chemical National Bank					12
13	Merchants' Exchange Nat. Bank					13
14	Gallatin National Bank					14
15	Nat. Butchers' & Drovers' Bank					15
17	Greenwich Bank					17
21	American Exchange Nat'l Bank					21
23	National Bank of Commerce					23
78	Germania Bank					78
80	Lincoln National Bank					80
81	Garfield National Bank					81
82	Fifth National Bank					82
83	Bank of the Metropolis					83
84	West Side Bank					84
85	Seaboard National Bank					85
91	Liberty National Bank					91
92	N. Y. Produce Exchange Bank					92
96	State Bank					96
97	Fourteenth Street Bank					97
98	National Copper Bank					98
99	Coal and Iron National Bank					99
100						100

CLEARING HOUSE PROOF SHEET.

National Monetary Commission

is the chance of such an agreement that in the whole history of the association there has not been a single instance of this kind, although, as we shall see, the approach on one occasion was within one cent of an exact exchange. Hence each day after the exchange the general proof will show a debit on the part of some of the banks and a corresponding credit on the part of others. To complete the clearings, therefore, it is necessary for the banks to settle these balances.

Accordingly, before half past 1 o'clock each debtor bank, in compliance with the requirement of the constitution, pays into the clearing house the amount of its debit balance and obtains a receipt for the same, signed by the assistant manager. After half past 1 o'clock the creditor banks receive at the clearing house their respective balances, and give their receipt for the same in a book provided for that purpose; but in no case can a creditor bank receive its balance until all the debtor banks have paid in.

With the exception of fractional amounts, balances are settled with legal-tender notes, gold coin, United States and clearing-house gold certificates. All legal-tender notes and United States gold certificates are made up in packages of \$1,000, \$2,000, \$3,000, \$4,000, \$5,000, \$10,000, \$20,000, \$50,000, and \$100,000 each, and all notes of a denomination smaller than \$500 should be put up in packages of not over \$5,000. All packages should be sealed and distinctly marked with the name of the institution, the amount, the date, and the kind of money contained therein.

Clearing - House Methods

No.	BANKS.	Dr.	Cr.
1	Bank of N. Y. Nat'l Bkg. Assoc'n		
2	Bank of the Manhattan Company		
3	Merchants' National Bank		
4	Mechanics' National Bank		
6	Bank of America		
7	Phoenix National Bank		
8	National City Bank		
12	Chemical National Bank		
13	Merchants' Exchange Nat. Bank		
14	Gallatin National Bank		
85	Seaboard National Bank		
91	Liberty National Bank		
92	N. Y. Produce Exchange Bank		
96	State Bank		
97	Fourteenth Street Bank		
98	National Copper Bank		
99	The Coal and Iron National Bank		
	Balances,		

FORM OF SETTLING CLERK'S REPORT TO HIS BANK OF DAILY BALANCES.

National Monetary Commission

By virtue of their convenience and safety the clearing-house certificates, elsewhere referred to, are now used extensively in the liquidation of balances. These are of two kinds—those issued upon the deposit of gold coin, gold certificates, silver certificates, and legal-tender notes in the clearing-house vaults, and those issued upon the deposit of gold coin with the assistant treasurer of the United States. Such certificates are issued in denominations of \$5,000 and \$10,000, corresponding to the full amount of the gold deposited, and are made negotiable only among the associated banks by indorsement on the back.

The holders of these certificates are the absolute owners of the gold represented by them, and are at liberty to redeem the same at any time during banking hours. It is entirely optional with the members to make such deposits or not. They act according to their pleasure; but any member holding such certificates, and transferring the same to any party not a member, is subject to a fine of \$100 for each offense.

The Bank of America was originally constituted a common coin depository, to hold in special trust and to issue certificates in denominations of \$1,000, \$5,000, and \$10,000 upon the deposit of such gold coin as the other banks might place therein.

The clearing house has been its own depository since its removal to the new location. Sometimes, when gold coin is in demand or there is a stringency in the money market, the coin is withdrawn from the depository by presentation of these certificates in considerable amounts. At other times the coin is freely deposited.

Clearing - House Methods

No. 61.	New York Clearing-house	1909
Received from the FOURTH NAT'L BANK,		
Dollars in full for balance due the Associated Banks.		
\$	Asst. Manager.	

MANAGER'S RECEIPT.

No. New York, 190 . \$

New York Clearing-house Association

THIS CERTIFIES that there have been deposited with the NEW YORK CLEARING-HOUSE ASSOCIATION by the

..... Dollars
in United States Gold Coin, to be held as a special deposit, payable in said coin to the order of said Bank, on demand, to any Bank member of the New York Clearing-house Association, only on surrender of this certificate indorsed by the Bank demanding payment of the same.

Registered at the
New York Clearing-house.

WM. SHERER, Manager.

NEW YORK CLEARING-HOUSE ASSOCIATION,

by

Chairman Clearing-house Committee.

THIS CERTIFICATE IS ISSUED FOR CLEARING-HOUSE PURPOSES ONLY.

FORM OF GOLD CERTIFICATE—FACE.

No.

Registered at the
NEW YORK CLEARING-HOUSE,

New York,.....1898.

*Pay only to any Bank member of the New
York Clearing-house Association.*

CONSTITUTION.

ARTICLE VI, SECTION 7.

Any member of the Clearing-house Association who shall pay or deliver to any party, other than a member of the said Association, the certificate of deposit of the Clearing-house Depository, shall be subject to a fine of \$100 (one hundred dollars).

FORM OF GOLD CERTIFICATE--BACK.

National Monetary Commission

A careful record is kept at the clearing house of the amounts of money and certificates used in the settlement of balances. Some idea of the relative proportion of the various kinds of money and certificates employed may be gained from the record for the year ending October 5, 1908. The debit balances were paid in as follows:

United States bearer gold certificates.....	\$1, 755, 781, 000. 00
United States order gold certificates.....	296, 210, 000. 00
Clearing-house gold certificates.....	752, 420, 000. 00
Clearing-house loan certificates.....	528, 710, 000. 00
Clearing-house note depository certificates:	
Legal tenders.....	1, 570, 000. 00
Gold certificates.....	3, 605, 000. 00
Silver certificates.....	3, 020, 000. 00
United States legal tenders and change.....	68, 316, 271. 41
	\$3, 409, 632, 271. 41

The course pursued by the manager, in the event of failure on the part of any member to appear at the proper hour to pay the balance against it, differs somewhat from that followed in many other associations. Article 10, section III, of the constitution provides that in such an emergency "the amount of that balance shall be immediately furnished to the clearing house by the several members exchanging that day with the defaulting member pro rata, according to their respective balances against said defaulting member, resulting from the exchanges of that day, and the manager shall make requisition accordingly, so that the general settlement may be accomplished with as little delay as possible. The respective amounts furnished the clearing house on account of the defaulting member will constitute claims against the defaulting member in favor of the several banks furnishing the same."

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Thus it will be observed that they shall immediately furnish the clearing house the amount of that balance in proportion to their respective balances against the defaulting bank. Most clearing houses in a similar exigency require that a member defaulting in the payment of a debit balance shall deliver to the manager all the checks received through the clearing house on the day of default and that the latter shall return the same to the members clearing them. Similarly, all the members receiving checks from the defaulting member on that day are required to surrender the same to said defaulting member, after which the clearing of the day is readjusted and a new settlement made the same as if no items had been sent through by or on the defaulting member. There have been cases, however, where the insolvency of a bank was known before clearing hour, whereupon the clearing-house committee has declined to allow it to clear.

The association is in no way responsible for the balances, except in so far as they are actually paid into the hands of the manager, and then its responsibility is strictly limited to the faithful distribution by him among the creditor banks of the amounts which he has received. Should any loss occur while the balances are in his custody the associated banks must bear the same in proportion to the other expenses. Any error in the exchanges and claims arising from the return of checks, or from any other cause, is adjusted directly between the banks concerned.

The association is free from responsibility for the contents of sealed bags or packages received at the clearing

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house, and all reclamations for errors or deficiencies in the contents of said sealed bags or packages must be made by 1 o'clock on the following day by the receiving bank directly against the bank whose mark the sealed bag or package bears. "All checks, drafts, notes, or other items in the exchanges returned as not good or missent must be returned the same day directly to the bank from which they were received, and the said bank must immediately refund to the bank returning the same the amount which it had received through the clearing house for the said checks, drafts, notes, or other items so returned to it in lawful money or clearing-house certificates. But checks, drafts, notes, or other items to be returned for informality of indorsement may, after being certified by the bank returning them, be returned through the exchanges the following morning, not exceeding \$5,000 in amount to any one bank."

An amendment to this section was made on June 4, 1884, providing that in case of the refusal or inability of any bank to refund promptly to the bank presenting items not good, the bank holding them may report the amount of the same to the manager, whose duty it shall be, with the approval of the clearing-house committee, to take from the settling sheet of both banks the amount of such items and readjust the clearing-house statement and declare the correct balance, in conformity with the change so made, provided such report is given to the manager before 1 o'clock of the same day.

All checks, notes, drafts, and bills of exchange, when certified by the banks on the previous day, are considered

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proper matter for clearing. Also, for the convenience of members, various kinds of money orders, though not authorized by the association, are accepted through the exchanges.

Clearing items with restricted indorsements are prohibited by a resolution adopted June 4, 1896, as follows:

Resolved, That on and after the 1st day of June, 1896, members of this association shall not send through the exchanges any checks, sight drafts, notes, bills of exchange, or other items having thereon any qualified or restrictive indorsements, such as "For collection" or "For account of" or "Pay any bank or banker, or order" or similar indorsements, unless all indorsements thereon are guaranteed by the bank, member of the association, sending such checks, drafts, notes, bills of exchange, or other items.

In response to many inquiries as to what indorsements are considered restrictive or qualified under the above resolution, the clearing-house committee replied that though in its opinion the forms "For deposit" and "For deposit to the credit of" do not fall under the class of indorsements within the purview of the clearing-house resolution, they are to a certain extent considered restrictive when followed by other indorsements, and that inasmuch as the clearing houses of several other cities have decided not to accept the indorsements "For deposit" or "For deposit to the credit of," and decline to pay any item with other than a plain indorsement thereon, members of the association should request their correspondents and depositors to use the following form: "Pay..... Bank, or order," which, if used, would prevent delay and possible loss in the collection of checks and other items.

The expenses of the association have not always been borne by the members in the same proportion. Section

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22 of the constitution, as originally adopted June 6, 1854, was as follows:

The expenses of the clearing house, not including the expense of printing for the several banks (which last-mentioned expense shall be apportioned equally) shall be borne and paid by the several banks belonging to the association, according to their respective capitals, as follows: Banks having capitals of less than \$500,000 shall pay \$100 each annually. Banks having capital of less than \$1,000,000, and not less than \$500,000, shall pay \$200 each annually. Banks having capitals of \$1,000,000 and over shall pay \$300 each annually. And in the same proportion if more funds are necessary.

In 1864 the constitution was referred to a committee of five members for amendment and revision. In due time they reported the changes they had made, and on January 24, 1865, the constitution was adopted as amended. It appears that prior to that time the above section was in force, requiring that members be assessed for expenses in proportion to capital, but that the change essentially to the present plan was then introduced.

Prior to 1890 no charge was made upon nonmembers clearing, but on October 14 of that year a resolution was passed, fixing an annual assessment of \$200 upon each nonmember. On December 21, 1896, an amendment was made to this resolution changing such assessment from \$200 to \$500. In the latter part of 1903 a further amendment was made to this resolution, to take effect January 1, 1904, stating that on and after that date every nonmember sending its exchanges through a member of the clearing house should pay to the association the sum of \$1,000 annually, at which figure it still stands. Original members paid no admission fee.

Since the revision of 1865 the printing expenses have been divided equally, and each bank has paid an annual

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assessment of \$200, and, in addition, its portion of any other sum necessary rated on the amount of exchanges which it has brought to the clearing house during the preceding year. The proportions are made out from the records at the clearing house, after deducting the fixed annual assessment upon nonmembers and members and rents due the association.

There is another important feature entering into the element of expenses which must not be overlooked. In associations where the clearing house is rented property it is comparatively easy, in fixing upon newly elected members their proportionate share of the current expenses, to do justice to all concerned. But in New York the situation is unique. The association owns its own clearing house, for the erection of which a heavy draft was made upon the members. Clearly, therefore, banks subsequently joining should in some way render to the other members a just compensation for the privileges they acquire.

Such compensation is duly provided for in the following plan: Preliminary to the erection of a clearing house 9,000 shares were issued—8,975 in the name of the president of the clearing-house association and 25 in the names of the five directors of the Clearing House Building Company, who held the same in trust. Certificates to the value of the shares were then issued to the banks in proportion to their respective capital and surplus, and they in turn advanced the money for the erection of the clearing house. Each bank advanced an amount of money equal to the face value of the certificates it held. This was done under

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an agreement that it should receive a stipulated rate of interest on its certificates, such interest to be raised by assessment upon the members according to capital. These certificates are not transferrable so long as the holder is a member of the association, but if at any time it should cease to be a member the association is given the preference in their purchase.

The fines collected are applied to the reduction of the expenses. The following table shows the amounts of fines for each year from 1885 to 1908, and will be of interest:

1885	\$1,015
1886	1,002
1887	1,422
1888	1,398
1889	1,121
1890	1,046
1891	885
1892	749
1893	989
1894	538
1895	521
1896	535
1897	542
1898	407
1899	562
1900	362
1901	338
1902	335
1903	296
1904	280
1905	397
1906	589
1907	650
1908	563

The maximum for this period, \$1,422, which is also the maximum for the whole history of the clearing house, was attained in 1887, and the minimum in 1904. It will be noted that the decline was nearly uniform between

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1887 and 1904. The falling off from year to year has been due in the main to improvement in the discipline of the clerks, and the increase in the last few years has undoubtedly been brought about by the largely increased volume of business.

The following gives the scale of fines in force at the clearing house:

Forty-five minutes from the hour of commencing—viz, 10 o'clock—will be allowed for a proof. For all errors remaining undiscovered at 11.15 o'clock the fines will be doubled, and at 12 o'clock quadrupled.

1. All errors on the credit side of the settling clerk's statement (i. e., in the amount brought) whether of footing or entry, and all errors causing disagreement between the credit entries, the check tickets, and the exchange slips, each \$3.

2. Errors in making the debit (i. e., amount received) entries, each \$2.

3. Errors in tickets reported to the clearing house, causing disagreement between the balances and aggregate, each \$2.

4. Errors in footing the amount received, \$1.

5. Disorderly conduct of the settling or delivery clerk at the clearing house or disregard of the manager's instructions, each offense, \$2.

6. Settling or delivery clerk failing to attend punctually with statements and tickets complete, at the morning exchanges, each \$2.

7. Debtor banks failing to appear to pay their balances before half past 1 o'clock, \$3.

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8. Errors in delivery or receipt of exchanges, each \$1.

It remains in this connection to give a table of figures showing the clearings for each year, from the establishment of the clearing house in 1853 to the present time; also the balances for the same period, with other important statistics:

CLEARINGS FOR 55 YEARS.

FISCAL YEARS ENDING SEPT. 30.	No. of Members.	Clearings for Year.	Average Daily Clearings.
1854	50	\$5,750,455,987.06	\$19,104,504.94
1855	48	5,362,912,098.38	17,412,052.27
1856	50	6,906,213,328.47	22,278,107.51
1857	50	8,333,226,718.06	26,968,371.26
1858	46	4,756,664,386.09	15,393,735.88
1859	47	6,448,005,956.01	20,867,333.19
1860	50	7,231,143,056.69	23,401,757.47
1861	50	5,915,742,758.05	19,269,520.38
1862	50	6,871,443,591.20	22,237,681.53
1863	50	14,867,597,848.60	48,428,657.49
1864	49	24,097,196,655.92	77,984,455.20
1865	55	26,032,384,341.89	84,796,040.20
1866	58	28,717,146,914.09	93,541,195.16
1867	58	28,675,159,472.20	93,101,167.11
1868	59	28,484,288,636.92	92,182,163.87
1869	59	37,407,028,986.55	121,451,392.81
1870	61	27,804,539,405.75	90,274,478.59
1871	62	29,300,986,682.21	95,133,073.64
1872	61	33,844,369,568.39	109,884,316.78
1873	59	35,461,052,825.70	115,885,793.58
1874	59	22,855,927,636.26	74,692,573.97
1875	59	25,061,237,902.09	81,899,470.26
1876	59	21,597,274,247.04	70,349,427.51
1877	58	23,289,243,701.09	76,358,176.06
1878	57	22,508,438,441.75	73,785,746.54
1879	59	25,178,770,690.50	82,015,539.70
1880	59	37,182,128,621.09	121,510,224.25
1881	61	48,565,818,212.31	159,232,190.86
1882	62	46,552,846,161.34	151,637,935.38
1883	64	40,293,165,257.65	132,543,306.76
1884	62	34,092,037,337.78	111,048,981.55
1885	64	25,250,791,439.90	82,789,480.38
1886	64	33,374,682,216.48	109,067,588.94
1887	65	34,872,848,785.90	114,337,209.13
1888	64	30,863,686,609.21	101,192,415.11
1889	64	34,796,465,528.87	114,839,820.23
1890	65	37,660,686,571.76	123,074,139.12
1891	64	34,053,698,770.04	111,651,471.39
1892	65	36,279,905,235.59	118,561,781.82
1893	65	34,421,380,869.50	113,978,082.31
1894	66	24,230,145,367.70	79,704,425.55
1895	67	28,264,379,126.23	92,670,095.49
1896	66	29,350,894,883.87	96,232,442.24
1897	66	31,337,760,947.98	103,424,953.62
1898	65	39,853,413,947.74	131,529,418.97
1899	64	57,368,230,771.33	189,961,029.04
1900	64	51,964,588,564.31	170,936,146.61
1901	62	77,020,672,493.65	254,193,638.59
1902	60	74,753,189,435.86	245,898,649.46
1903	57	70,833,655,940.29	233,005,447.17
1904	54	59,672,796,804.41	195,648,514.11
1905	54	91,879,318,369.00	302,234,599.89
1906	55	103,754,100,091.25	342,422,772.57
1907	54	95,315,421,237.96	313,537,569.86
1908	50	73,630,971,913.18	241,413,022.66
Totals,		\$1,930,248,133,349.14	\$114,765,927.42

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One trillion nine hundred and thirty billion two hundred and forty-eight million one hundred and thirty-three thousand three hundred and forty-nine dollars and fourteen cents! It is difficult to comprehend the magnitude of such a sum. This is sufficient to run the whole machinery of our Government for about three thousand years, and is two hundred and seventy-five times as great as all the gold and silver money in the world. If put up in 8-ounce duck bags in the form of silver dollars, it would require 16,006,778 cubic yards for storage; and to count it all in a single year, it would take more than 20,000 men, counting at the rate of \$175 a minute, day and night without intermission.

These figures distance the transactions of all the other clearing houses of the United States combined, whether we consider the sum total of the exchanges since the inauguration of our clearing system or the current transactions.

It will be noted that the increase in clearings from year to year has not been uniform. The decrease was nearly 50 per cent from 1857-58, due in a large measure to the panic of 1857. Thence the increase was normal until the outbreak of the civil war, when business interests throughout the country received a severe blow, and the clearings declined till 1863, when there was a sudden turn, followed by an increase for the next three years.

The requirements of the new system soon exposed a weakness in the management of eight banks, and in consequence of their inability to meet the demand upon them for daily settlements, they were forced into liqui-

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dation. As a result, the second year shows a reduction in the total business of the clearing house, followed by a gradual increase, till the panic of 1857. The decline in the volume of exchanges was nearly 50 per cent from 1857-58, as before stated, but by the following year the recovery was nearly complete, due in a large measure to the passage by Congress of the national currency act, which immediately expanded the circulation. At this point came another change, and there was a slight decrease in the clearings until 1869. This year was followed by an increase to nearly \$9,000,000,000 above the record of any previous year.

A gradual decline set in again, from which the business of the clearing house did not recover fully for the next twelve years. Meanwhile the clearings had gone down in 1876 nearly \$16,000,000,000 below the total for 1869. The resumption of specie payments by the United States Government on the 1st of January, 1879, wrought a salutary change in the business and commercial interests of the country, and the consequent effect upon the business of the clearing house was wonderful. For the year 1878 the total exchanges of \$22,500,000,000, in round figures, increased to the prodigious sum of \$48,565,000,000 for 1881, or over 100 per cent in three years, when the high-water mark was reached in the association's history, the exchanges for that year running far above the record for any previous year.

The failure of two or three banks in 1884, notably the Marine Bank and the Wall Street Bank, produced a considerable reduction in the amount of clearings,

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but the increase was rapid after 1885 until 1892, when the volume of exchanges was again reduced, owing to the general stagnation in business and trade. In 1896 the volume of business was nearly twenty billions of dollars below the record of 1881. In considering this decline, it must not be forgotten that the establishment of the Stock Exchange Clearing House in 1892 has detracted very greatly from the volume of the exchanges. It has been estimated that to this fact is due a reduction of from \$40,000,000 to \$60,000,000 a day.

The figures of 1881 continued as the high-water mark for annual clearings until 1899, when they suddenly leaped from \$39,000,000,000 in 1898 to \$57,000,000,000, an increase of nearly 50 per cent in a single year, and in 1901 to \$77,000,000,000, a further increase of nearly 40 per cent. The next three years, however, showed declines, and in 1904 the clearings had again fallen to something over \$59,000,000,000. Following that year the United States entered upon a period of prosperity far greater than had ever before been experienced, and in 1906 the clearings reached the unprecedented total of \$103,754,100,000, thus making it the banner year in the history of the association and showing average daily clearings of over \$342,000,000. By 1908, the year in which the effects of the panic of the previous year were felt, the clearings had dropped back to \$73,000,000,000, thus indicating as strikingly as any figures could the extent of the retrenchment in business that occurred in the country during and following the panic.

The variation in the ratio of balances to clearings during this period has not been, as a rule, abnormal. The

BALANCES PAID IN CASH FOR 55 YEARS

FISCAL YEARS ENDING SEPT. 30.	No. of Members.	Balances for Year.	Average Daily Balances.	Balances to Clearings. Per Cent.
1854	50	\$297, 411, 493. 69	\$988, 078. 06	5 ¹⁷
1855	48	289, 694, 137. 14	940, 565. 38	5 ⁴⁰
1856	50	334, 714, 489. 33	1, 079, 724. 16	4 ⁸³
1857	50	365, 313, 901. 69	1, 182, 245. 64	4 ³⁹
1858	46	314, 238, 910. 60	1, 016, 954. 40	6 ⁶⁶
1859	47	363, 984, 682. 56	1, 177, 943. 96	5 ⁶⁴
1860	50	380, 693, 438. 37	1, 232, 017. 60	5 ²⁶
1861	50	353, 383, 944. 41	1, 151, 087. 77	5 ⁹⁷
1862	50	415, 530, 331. 46	1, 344, 758. 35	6 ⁰⁴
1863	50	677, 626, 482. 61	2, 207, 252. 39	4 ⁵⁵
1864	49	885, 719, 204. 93	2, 866, 405. 19	3 ⁶⁷
1865	55	1, 035, 765, 107. 68	3, 373, 827. 71	3 ⁹⁷
1866	58	1, 066, 135, 106. 35	3, 472, 752. 79	3 ⁷¹
1867	58	1, 144, 963, 451. 15	3, 717, 413. 80	3 ⁹⁹
1868	59	1, 125, 455, 236. 68	3, 642, 249. 95	3 ⁹⁵
1869	59	1, 120, 318, 307. 87	3, 637, 397. 10	2 ⁶⁹
1870	61	1, 036, 484, 821. 79	3, 365, 210. 46	3 ⁷²
1871	62	1, 209, 721, 029. 47	3, 927, 665. 68	4 ¹²
1872	61	1, 428, 582, 707. 53	4, 638, 255. 54	4 ²²
1873	59	1, 474, 508, 024. 95	4, 818, 653. 67	4 ¹⁵
1874	59	1, 286, 753, 176. 12	4, 205, 075. 73	5 ⁶²
1875	59	1, 408, 608, 776. 68	4, 603, 296. 65	5 ⁶²
1876	59	1, 295, 042, 028. 82	4, 218, 377. 94	5 ⁹⁹
1877	58	1, 373, 996, 301. 68	4, 504, 905. 90	5 ⁸⁹
1878	57	1, 307, 843, 857. 24	4, 273, 999. 53	5 ⁸¹
1879	59	1, 400, 111, 062. 86	4, 560, 622. 35	5 ⁵⁶
1880	59	1, 516, 538, 631. 29	4, 956, 008. 60	4 ⁰⁷
1881	61	1, 776, 018, 161. 58	5, 823, 010. 36	3 ⁶⁶
1882	62	1, 595, 000, 245. 27	5, 195, 440. 54	3 ⁴²
1883	64	1, 568, 983, 196. 15	5, 161, 128. 93	3 ⁸⁹
1884	62	1, 524, 930, 993. 93	4, 967, 201. 93	4 ⁴⁷
1885	64	1, 295, 355, 251. 89	4, 247, 069. 39	5 ¹²
1886	64	1, 519, 565, 385. 22	4, 965, 899. 95	4 ⁵⁵
1887	65	1, 569, 626, 324. 77	5, 146, 315. 82	4 ⁴⁹
1888	64	1, 570, 198, 527. 78	5, 148, 191. 89	5 ⁰⁸
1889	64	1, 757, 637, 473. 47	5, 800, 783. 74	5 ⁰⁵
1890	65	1, 753, 040, 145. 23	5, 728, 889. 36	4 ⁶⁵
1891	64	1, 584, 635, 499. 88	5, 195, 526. 21	4 ⁶⁵
1892	65	1, 861, 500, 574. 56	6, 083, 335. 18	5 ¹³
1893	65	1, 696, 207, 175. 52	5, 616, 580. 05	4 ⁹²
1894	66	1, 585, 241, 633. 52	5, 214, 610. 63	6 ⁵⁴
1895	67	1, 896, 574, 349. 11	6, 218, 276. 55	6 ⁷¹
1896	66	1, 843, 289, 238. 66	6, 043, 571. 27	6 ²⁸
1897	66	1, 908, 901, 897. 67	6, 300, 006. 26	6 ⁰¹
1898	65	2, 338, 529, 016. 43	7, 717, 917. 54	5 ⁸⁷
1899	64	3, 085, 971, 370. 53	10, 218, 448. 24	5 ³⁷
1900	64	2, 730, 441, 810. 27	8, 981, 716. 48	5 ²⁵
1901	62	3, 515, 037, 741. 05	11, 600, 784. 62	4 ⁵⁶
1902	60	3, 377, 504, 072. 11	11, 110, 210. 76	4 ⁵¹
1903	57	3, 315, 516, 487. 48	10, 906, 304. 23	4 ⁶⁸
1904	54	3, 105, 858, 575. 60	10, 183, 142. 87	5 ²⁰
1905	54	3, 953, 875, 974. 80	13, 006, 170. 97	4 ³³
1906	55	3, 832, 621, 023. 87	12, 648, 914. 27	3 ⁶⁹
1907	54	3, 813, 926, 108. 35	12, 545, 809. 56	4 ⁰⁰
1908	50	3, 409, 632, 271. 41	11, 179, 122. 20	4 ⁶³
Totals,		\$89, 694, 759, 171. 06	\$5, 332, 942. 45	4 ⁶⁴

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maximum was reached in 1895, when the per cent was 6.71, and the minimum in 1869, when it reached the low mark of 2.99 per cent.

The largest transactions for any one day since the clearing house was organized were on January 3, 1906, when they reached the prodigious sum of \$686,844,890.58. The smallest transaction for any one day was on October 30, 1857, amounting to \$8,357,394.82.

The largest total balance resulting from any one day's exchanges was on October 3, 1905, amounting to \$42,331,709.02. The smallest total balance on record was on October 30, 1857, amounting to \$489,720.32.

The greatest amount of exchanges brought to the clearing house by any one bank was on January 3, 1906, amounting to \$111,833,131.31. The greatest amount of exchanges taken away from the clearing house by any one bank was on February 28, 1905, \$125,954,496.61.

The largest balance ever paid by the clearing house to any one bank was on September 30, 1905, \$27,355,290.85. The largest balance ever paid by a single institution to the clearing house was paid on October 3, 1905, and amounted to \$37,661,685. The smallest balance ever paid by the clearing house to any one bank was on December 16, 1873, amounting to 10 cents. The smallest balance ever paid to the clearing house by any one bank was on September 22, 1862, amounting to 1 cent.

Such is the history of the New York clearing house. Standing foremost among the financial institutions of the country, we may well forecast for it a future of still greater importance to the business world.

CHAPTER XV.

THE CLEARING-HOUSE ASSOCIATION OF THE BANKS OF PHILADELPHIA.

EARLY HISTORY—RUNNERS' EXCHANGE—THE MORNING EX-
CHANGE—GOLD DEPOSITORY—CLEARING - HOUSE DUE-
BILLS—SETTLEMENTS WITHOUT THE USE OF MONEY—
COMPARISON OF BANK STATEMENTS—COLLATERAL SE-
CURITY—ASSESSMENT OF EXPENSES—ADMISSION OF NEW
MEMBERS—PLAN OF ADMINISTRATION—LIST OF PRESI-
DENTS—FAILURES AND RESULTING LITIGATION.

The clearing-house association of Philadelphia is a voluntary unincorporated association of certain banks of that city, its chief object being to effect, at a central point called the "clearing house," the daily exchanges of items between the associated banks. It was established in 1858, five years after that of New York, and with essentially the same rules and by-laws. Prior to this, the cashiers met at a central point and adjusted the balances in the morning exchanges, which were afterwards collected in cash by the runners of the creditor banks at the counters of the debtor banks. In this exchange were included all items received in the morning mail.

The banks of Philadelphia are not so concentrated in location as are those of New York or Boston, and this very greatly enhanced the labor of the runners, who had to make the interchange of items. They called those banks most remote from the banking center "the extremities,"

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and it was indeed a most unenviable task to make the rounds of these daily. Accordingly, the feeling early prevailed that the exchanges would be greatly facilitated if only the items of the previous day were included in that day's exchange. In 1862, only four years after the establishment of the clearing house, William H. Rhawn, who for a long time was president of the National Bank of the Republic, proposed the introduction of a second exchange, and after a year's discussion by the clearing-house committee it was adopted. This was called the "runners' exchange," and it was so named because it was in a large measure a substitute for the work previously performed by the runners.

This runners' exchange included all notes and acceptances due that day and all items in the morning mail made payable at the banks. Through it were nearly always returned the items not good that were included in the morning exchange.

The morning exchange took place at 8.30 o'clock and included only the items of the previous day. The method was essentially the same as that of New York, and differed from that of Boston only in the requirement of a receipt for packages as delivered. The runners' exchange was fixed at 11.30, so that the clerks from the debtor banks at the morning exchange could pay their debts before the runners' exchange, and the clerks from creditor banks could receive the amounts of their credits after the exchange.

The method of the runners' exchange differed somewhat from that in the morning exchange. Only one clerk from

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each bank was employed, whereas two were required in the earlier clearings. Each clerk upon his arrival first deposited the items which he held on the other banks and then took his position at the desk of his own bank. Promptly at 11.30 o'clock each clerk began to list and add the items deposited for his bank. The balances were then adjusted by duebills or checks, after which the clerks repaired to their several banks.

The method of settling balances at these two exchanges differed from that pursued in various other clearing-house associations. The Farmers and Mechanics' National Bank received in special trust such gold coin as any of the members voluntarily deposited with it for safe-keeping for clearing-house purposes. Against such deposits certificates in denominations of \$5,000 and \$10,000 were issued to the depositing banks, signed by the manager of the clearing-house association or by his assistant, or by some other person designated by the association for the purpose, and countersigned by the Farmers and Mechanics' National Bank. These certificates were negotiable only among the associated banks, and were receivable by them in the payment of balances at the clearing house for the morning exchange. The coin thus placed on deposit was the absolute property of such of the associated banks as were for the time the holders of the certificates, and was held by the depository subject to withdrawal on presentation of the properly indorsed certificate at any time during banking hours.

Hence it will be seen that these certificates were issued under about the same conditions as are the clearing-house

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NUMBER 62008	<i>Countersigned</i> This Due Bill is only good when signed by one and counter- signed by another authorized person and is payable only in the Exchanges through the Clearing-house the day after issue.
Due by <i>The Central National Bank</i> <i>Philadelphia</i> CLEARING-HOUSE thousand \$ _____ DUE BILL hundred and 100 Dollars _____ Teller TELLER.	

FORM OF CLEARING-HOUSE DUE BILL.

Clearing - House Methods

certificates of New York and other cities, with the exception that the gold coin deposited as security therefor was placed in the vaults of the Farmers and Mechanics' National Bank instead of in the clearing house, which at that time had no adequate facilities for the handling of the same. This arrangement has since been changed, and the gold is now deposited in the vaults of the clearing house, in the same manner as at New York.

The runners' exchange has since been abolished by constitutional amendment, and there is now but one exchange a day, which takes place at 10 o'clock in the morning.

There is also a constitutional provision that the manager of the clearing house shall receive the certificates issued by the Treasurer of the United States for clearing-house purposes under any act of Congress, in settlement of balances due from the morning exchange. These certificates, it is provided, must be indorsed, "Pay to the order of a bank, member of the clearing-house association of the banks of Philadelphia." The certificates are issued in denominations of \$5,000 and \$10,000. Inasmuch as these certificates are issued only in the large denominations above mentioned, some other medium must be employed in the payment of balances and parts of balances under \$5,000. This is done with clearing-house duebills (see form on another page) issued by the debtor banks to the clearing-house manager, who deposits them in the clearing-house depository bank, which, in turn, sends them through the exchanges against the debtor banks on the following day. These clearing-

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WEEKLY STATEMENT.								
Average Condition for the Week preceding Monday,							190	
BANK.	CAPITAL STOCK	LOANS AND DISCOUNTS.	LAWFUL MONEY RESERVE.	DUE FROM OTHER BANKS.	DUE TO OTHER BANKS.	DEPOSITS.	CIRCULA- TION.	PERCENT- AGE OF RESERVE.
Due by				Due to				
\$ _____				New York, \$ _____				
Cashier. _____								

FORM OF WEEKLY STATEMENT REQUIRED OF PHILADELPHIA BANKS.

Clearing - House Methods

house duebills can be used only on the day of issue, and are payable only in the exchanges through the clearing-house the day after issue.

The manager issues to creditor banks manager's checks on the clearing-house depository bank for the amount of their credit, under \$5,000, being the amount of the duebills deposited with that bank. Banks are required to give duebills to the other banks upon demand, in payment of items at their counters, where the amount exceeds \$100. They are also required to furnish to each other and to the manager of the clearing house the names and signatures of all persons authorized to sign or countersign duebills.

By this means the balances are settled from day to day without the use of a single penny of money. The risk attending the transfer of large sums of money through the streets of the city is obviated, and the greatest possible ease is secured in the receipt and disbursement of balances.

The provision of the constitution regarding statements is as follows: "Each bank shall furnish on Mondays, for publication, a statement of its average condition for the previous week, after deducting the daily exchanges from the gross figures of the preceding day. To each statement shall be appended the state of the account of the bank with New York on the day of report. These statements shall be certified to by the president, cashier, or assistant cashier."

Each bank is also required to furnish a daily statement to the manager, but not for publication, certified ✓

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DAILY STATEMENT

of THE CENTRAL NATIONAL BANK,
at the close of business.....190

This Statement, is to be sent *with the Exchanges*, to the Clearing-house,
at or before 10 o'clock, A. M., on the following business day.

Loans and Discounts, including all Interest Bearing Securities of the United States.			
Individual Deposits			
Banks' and Bankers' Deposits.			
Total Deposits.			
Less Exchanges for Clearing-house and due from Banks and Bankers (exclusive of Reserve Agents).....			
Net Deposits.			
Specie			
U. S. Legal Tender Notes			
U. S. Treasury Gold Certificates.			
Clearing-house Gold Certificates			
Cash Reserve.			
Due by Reserve Agents.			
Total Reserve.			
Circulation			
National Bank Notes.			

I certify that the above statement is correct as shown by the books of
the Bank.

General Bookkeeper

FORM OF DAILY STATEMENT EMPLOYED BY THE BANKS OF
PHILADELPHIA.

No. 1	Phil
2	Nor
3	Fari
6	Nat
7	Sou
8	Ker
9	Pen
10	Wes
11	Mar
13	Girs
14	Tra
18	Cor
19	Uni
20	Firs
21	Thi
23	Sixt
25	Eig
26	Cen
28	Nat
29	Cen
30	Mei
33	Nin
34	Ter
36	Nor
37	Sot
39	Fot
40	Ma
42	Qui
43	Nor
44	Fra
45	Ter

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AVERAGE CONDITION OF THE BANKS IN PHILADELPHIA,

For the Week preceding Monday, July 26th, 1909,

As furnished by JOHN C. BOYD, Manager Philadelphia Clearing-house.

BANKS	CAPITAL STOCK	LOANS AND DISCOUNTS	Lawful Money Reserve	Due fr. Bks.	Due to Bks.	DEPOSITS	Circulation	Percent- age of Reserve
No. 1 Philadelphia National.....	\$1,500,000	\$37,696,000	\$12,048,000	\$6,714,000	\$25,702,000	\$24,604,000	\$1,129,000	27.6
2 North America.....	1,000,000	13,082,000	3,497,000	1,682,000	3,233,000	10,730,000	496,000	28.4
3 Farm's & Mech's National....	2,000,000	13,338,000	3,488,000	3,559,000	4,940,000	10,214,000	1,956,000	30.0
6 Nat. Bk. of N. Liberties.....	500,000	3,834,000	806,000	439,000	583,000	2,920,000	200,000	26.3
7 Southwark National.....	250,000	1,787,000	478,000	209,000	495,000	1,383,000	246,000	28.6
8 Kensington National.....	250,000	1,699,000	342,000	106,000	22,000	1,360,000	144,000	26.8
9 Penn National.....	500,000	5,266,000	1,697,000	705,000	523,000	5,444,000	142,000	32.2
10 Western National.....	600,000	3,562,000	866,000	834,000	1,971,000	2,319,000	443,000	25.0
11 Manufacturers Nat'l.....	500,000	2,125,000	532,000	334,000	544,000	1,535,000	126,000	30.4
13 Girard National.....	2,000,000	31,472,000	10,319,000	5,354,000	23,201,000	16,965,000	1,069,000	29.6
14 Tradesmens National.....	500,000	4,994,000	1,438,000	1,281,000	2,455,000	3,560,000	496,000	30.3
18 Corn Exchange National.....	1,000,000	14,365,000	4,464,000	3,544,000	12,351,000	7,016,000	814,000	28.2
19 Union National.....	500,000	5,589,000	1,619,000	742,000	972,000	5,343,000	440,000	29.0
20 First National.....	1,000,000	9,185,000	2,321,000	1,824,000	4,261,000	6,342,000	1,000,000	26.4
21 Third National.....	600,000	4,355,000	1,111,000	969,000	566,000	4,468,000	347,000	27.3
23 Sixth National.....	150,000	1,356,000	412,000	195,000	.....	1,445,000	148,000	32.9
25 Eighth National.....	275,000	3,057,000	675,000	167,000	78,000	2,585,000	274,000	27.0
26 Central National.....	750,000	13,491,000	3,750,000	1,058,000	4,797,000	11,180,000	378,000	25.2
28 National Security.....	250,000	3,241,000	744,000	198,000	33,000	2,906,000	247,000	27.1
29 Centennial National.....	300,000	2,969,600	961,000	338,000	190,000	3,242,000	100,000	31.0
30 Merchants' National.....	1,000,000	10,507,000	2,646,000	1,741,000	6,176,000	6,609,000	401,000	24.0
33 Ninth National.....	300,000	3,350,000	729,000	225,000	28,000	3,120,000	104,000	24.9
34 Tenth National.....	200,000	057,000	249,000	94,000	76,000	990,000	97,000	25.6
36 Northwestern National.....	200,000	852,000	647,000	155,000	14,060	2,773,000	199,000	24.6
37 Southwestern National.....	200,000	884,000	149,000	76,000	.....	786,000	50,000	20.9
39 Fourth Street National.....	3,000,000	38,231,000	14,786,000	7,254,000	24,021,000	24,672,000	2,808,000	35.7
40 Market Street National.....	1,000,000	7,950,000	1,926,000	1,258,000	3,404,000	4,985,000	1,000,000	27.0
42 Quaker City National.....	500,000	2,652,000	430,000	155,000	43,000	1,822,000	496,000	25.1
43 Northern National.....	200,000	1,843,000	432,000	73,000	6,000	1,844,000	195,000	24.3
44 Franklin National.....	1,000,000	25,142,000	7,503,000	4,376,000	12,749,000	20,272,000	542,000	26.1
45 Textile National.....	200,000	1,058,000	225,000	91,000	98,000	829,000	198,000	26.9
TOTAL.....	\$22,225,000	\$271,989,000	\$81,290,000	\$45,750,000	\$133,442,000	\$194,263,000	\$16,285,000	28.8

COMPARISONS

Increase.

Increase.

Decrease.

Decrease.

Decrease.

Increase.

\$99,000

\$257,000

\$1,194,000

\$296,000

\$501,000

\$251,000

CLEARINGS AND BALANCES.

July 19th.....	\$16,068,176 55	\$1,020,819 21	July 22d.....	19,755,588 38	1,264,080 89
" 20th.....	23,924,108 45	2,005,900 00	" 23d.....	20,582,065 20	1,492,122 36
" 21st.....	22,343,605 12	1,912,332 99	" 24th.....	17,827,577 00	2,098,263 58
				\$120,501,120 70	\$9,793,519 03

WEEKLY STATEMENT FOR TRUST COMPANIES.

Average Condition for the Week preceding Monday, July 26th, 1909.

TRUST COMPANY	Capital	Surplus Fund and Undivided Profits	Loans and Investments	Specie	Legal Tender Notes and Bank Notes	On Deposit with Clearing-house Agent	On Deposit with other Approved Depositories	Deposits
LAND TITLE & TRUST CO....	\$2,000,000	\$3,042,000	\$8,501,000	\$59,000	\$420,000	\$841,000	\$1,241,000	\$8,148,000

FORM OF STATEMENT OF THE AVERAGE CONDITION OF PHILADELPHIA BANKS.

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by the general bookkeeper. Such statement is to be made before the commencement of business and sent to the clearing house with the morning exchanges. Thus the Philadelphia association is more rigid even than New York in this particular, and, indeed, more exacting than any other clearing-house association in the country. In many cases, especially in the larger cities of the country, a weekly statement is required, but in no city except Philadelphia is a statement required oftener than once a week.

Philadelphia reports eight items, while New York reports but seven. Both give "capital stock," "circulation," "loans and discounts," and "deposits," but Philadelphia differs in that they report "lawful money reserve" in one item, and include "due from banks," "due to banks," and "percentage of reserve," which are not given in the New York reports.

In addition to the protection afforded each member by these statements, each bank, upon becoming a member, is required to deposit collateral with the clearing-house committee, as security for its daily settlements, in the following proportion to capital: Banks with capitals of \$800,000 and over, 10 per cent. Banks with capitals of \$500,000 and under \$800,000, 14 per cent; but not to be required to deposit over \$80,000. Banks with capitals of \$250,000 and under \$500,000, 20 per cent; but not to be required to deposit over \$70,000. Banks with capitals of under \$250,000 shall deposit not less than \$50,000.

The rules of the association further provide that if, after any bank shall have become a member of the asso-

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ciation, the clearing-house committee shall deem the collaterals deposited by such bank to be insufficient security for its daily transactions, the committee may from time to time require such bank to deposit additional collateral security therefor. It is understood by all banks making such deposits that they alone are responsible for any loss on their collaterals deposited resulting from the failure to make demand and protest, or from any other neglect or omission other than the refusal to take such reasonable steps as may have been previously requested in writing.

In case of default by any member, the clearing-house committee is instructed to apply their deposit of collateral "to the payment of any balances due by such bank at the clearing house or to the reimbursement pro rata of the several banks furnishing any such balance, and the surplus, if any, shall be held by the committee as collateral security for any indebtedness of such defaulting bank to the clearing-house committee, or to the association or any of its members, and also as security for all costs, expenses, and counsel fees, paid by the clearing-house committee, for the collection of the security representing the deposit, or which the committee may be compelled to pay by reason of holding the same." The committee may be required to determine the time when exchanges or deliveries of collateral security shall be made.

The constitution further provides that—

Bills receivable deposited as such security shall in no case be received at more than 75 per cent of their face value, unless accompanied by collateral security of greater value, when, in the discretion of the committee, such bills may be received to an amount not exceeding their face value. It shall be the privilege of each bank to examine twice a year, or oftener,

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at its option, the securities in the custody of the clearing-house committee, deposited by it, as collateral security, to compare the same with the receipt given by the committee, and if found correct, to execute to the committee a certificate setting forth the different kinds and amounts thereof, and that the same are in the possession and custody of the committee at the date of such certificate. Such examination may be made by an officer of such bank or nonmember, or by a committee of directors duly appointed for the purpose.

As in New York and Boston, the expense of printing is apportioned equally; but while other associations require that each bank shall be assessed a stated sum and pay the remainder thereafter in proportion to its exchanges for a given period, the Philadelphia Association requires that all such expenses shall be borne by the several members, according to capital, as follows: Banks having a capital of less than \$500,000 shall pay \$100 each annually. Banks having a capital of \$500,000 and less than \$1,000,000 shall pay \$200 each annually. Banks having a capital of \$1,000,000 and upward shall pay \$300 annually, and in the same proportion if more funds become necessary. The expenses are much lower than at New York, Chicago, or Boston.

The fines, amounting to from \$300 to \$400 annually, have always been donated to the Bank Clerks' Beneficial Association. In the last few years the disorder fines have amounted to but a very small sum. None of the fines are high comparatively. For no offense is it greater than \$1 except for failure to attend exchanges promptly and to be punctual in the payment of debtor balances, in which case it is \$2 for each offense.

Banks may be admitted from time to time to membership in the association, but the requirements are more rigid than in any other city. Applications must be made

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to the clearing-house committee and upon a favorable report by them to the association the applicant may be admitted by an affirmative vote of three-fourths of all the members and by paying an admission fee of \$10,000 and certifying assent to the articles of association. In no other city is the admission fee so high, and in only a few is more than a majority vote of the members necessary for admission.

The power of suspension is lodged in the clearing-house committee, but no suspension can take place unless a majority of the committee are present and vote unanimously in favor thereof. In the event of such action, it is the duty of the committee to call a meeting of the association immediately to take the matter into consideration.

The administration of the clearing house is vested in a president, secretary, manager, assistant manager, committee of arbitration, and clearing-house committee. The latter committee, consisting of six bank officers, is elected annually, and in it is vested almost absolute power. This committee appoints the manager and assistant manager, establishes rules to be observed at the clearing house, subject to the approval of the association, and generally supervises clearing-house affairs. It has charge of the funds belonging to the association, draws on each bank for its quota of expenses, and submits to the association detailed accounts of expenditures. It takes into its custody the collateral securities required to be deposited by the banks. This committee has power to remove the manager or any of the assistants

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whenever, in its opinion, the interests of the association require it. The committee can examine the books and assets of any member of the association whenever it shall deem it necessary.

The committee of arbitration is also elected annually and is composed of six bank officers. Upon it devolves the duty of hearing and determining disputes between members of the association when submitted to it by either party. The duties of this committee, however, are not very arduous, as the records show that it is rarely called upon to meet.

The president is elected annually by ballot and presides at all meetings of the association. He is ex officio a member of each of the standing committees and in his absence a president pro tempore is appointed.

At the beginning of the organization it happened that the man who had been longest president of a bank was made president of the association. He was repeatedly reelected, his final term expiring after ten years of service. The precedent of electing and reelecting to the presidency of the association the one who has been longest president of a bank has since been adhered to, so that in the history of the association there have been only five presidents, as follows: Joseph B. Mitchell, Joseph Patterson, James V. Watson, J. H. Michener, and the present incumbent, F. B. Reeves, who assumed office on January 7, 1907.

The secretary is elected at the annual meeting by ballot. It is his duty to keep correct minutes of the proceedings of the association in a book provided for the purpose.

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The manager has immediate charge of all business at the clearing house; under clerks and messengers from the banks are under his direction. His decisions concerning details at the clearing house are binding, until modified by the clearing-house committee. It is his duty to impose and collect fines fixed by the association for the violation of rules at the exchanges. With the assistance of the clerks, he performs the duties connected with the operation of clearing, the adjustment and payment of balances, the keeping of records, the preparation of weekly statements, and, in a word, all the details of clearing. His salary is fixed by the association and he is required to give bond with sureties in the sum of \$50,000, subject to the approval of the clearing-house committee. In this connection it may be remarked that at Chicago a bond is required in the same amount, but at Boston and New York it is fixed at \$10,000.

Permanent clerks are also required to give bond in such sums as the clearing-house committee shall determine, with approved sureties. Such bonds must be examined by the clearing-house committee at least once a year.

In the history of the Philadelphia clearing house four of the member banks have failed, viz, the Fourth National in 1874, the Spring Garden and the Keystone National in 1891, and the Chestnut Street National in 1897. The failure of the Keystone National Bank involved the receiver thereof and the seven members of the clearing-house committee in litigation. The facts connected with the case and the result of the trial are very interesting and important to all clearing-house associations. The circumstances were briefly as follows:

Clearing - House Methods

On March 20, 1891, the Keystone National Bank made its regular exchanges at the clearing house, bringing items to the amount of \$70,005.46, and receiving \$117,035.21. The debtor balance of this bank, therefore, was \$47,029.75. The bank failed to pay its balance at 12 o'clock, in accordance with the rules, and it was not subsequently paid. In compliance with a previous agreement between the associated banks and the Keystone National Bank, the manager was allowed to hold the exchanges received by the latter until the payment of the balance. Accordingly he retained the packages in his possession, and, after 12 o'clock on the day of failure, notified the banks which had sent the exchanges that they must make them good by the payment into his hands of that amount of money. With this request they immediately complied and took away the packages.

In addition to the debit balance of \$47,029.75 on the morning of failure, the Keystone National Bank owed \$41,197.36, for which it had issued clearing-house duebills in payment of its balance on the preceding day, and which duebills, according to the common rule, were payable in the exchanges on the following day, which in this case was the day of failure. Further, it owed \$335,000 on clearing-house loan certificates, issued to it by the association on the deposit of collateral security in obedience to the terms of a special agreement entered into between said bank and the clearing-house association. Acting under the instructions of the clearing-house committee, the manager appropriated the sum of \$117,035.21, furnished him by the banks, to the payment of the obliga-

National Monetary Commission

tions of the Keystone National to the association, as follows: In payment of the debit balance of the Keystone National Bank in that morning's exchanges, \$47,029.75; to make good the duebills given by the bank for its debtor balance on the preceding day, including duebills given to the several banks, \$41,197.36; and the remainder, amounting to \$28,808.10, to the cancellation of a part of the \$335,000 in clearing-house loan certificates issued to that bank.

Upon a bill brought by the receiver of the defaulting bank against the seven members of the clearing-house committee, the circuit court rendered a decree for \$70,005.46, with interest from March 20, 1891, against the defendants, on the ground that after the known insolvency of the named bank they applied its funds in their hands or under their control to the payment of its debts to the clearing-house association and to members thereof, with a view of giving them unlawful preference over other creditors.

The circuit court of appeals, to whom the case was appealed by the clearing-house committee, reversed this decree, on the ground that a bona fide exchange of items had taken place between the Keystone National Bank and its clearing-house association before the bank examiner had acted, and when the clearing-house association had no reason to suspect the impending failure. The transaction was in the regular course of business and with a view to continuing operation. The exchange was an accomplished fact, and the only thing remaining to be done was the payment by the Keystone National Bank

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of its debtor balance in the morning exchange. It failed to do this, and hence the action of the clearing-house manager in appropriating the money received from the various banks holding exchanges on the Keystone National Bank to the payment of the latter's obligations to the association was a justifiable procedure. The receiver of the Keystone National Bank finally appealed the case to the Supreme Court of the United States, and in March, 1897, a decision was rendered in favor of the clearing-house committee.

CHAPTER XVI.

THE BOSTON CLEARING HOUSE.

FORMATION AND EARLY HISTORY—PERIOD OF THE CIVIL WAR—SETTLEMENT OF BALANCES—BORROWING AND LOANING BALANCES—CLEARING FOR OUTSIDE BANKS.

Only three years after the establishment of the New York clearing house a similar association was formed in Boston—namely, in 1856—for the purpose, as specified in the constitution, of effecting a more perfect and satisfactory settlement of the daily exchanges of checks and other items, and of the balances resulting therefrom. The constitution was modeled very closely on that of New York, and, although important changes have since been wrought in both, Boston still remains more nearly on the New York model than does any other important association in the United States. This is so, for the most part, because the New York clearing house was the only one at that time in the United States; and hence to it alone could Boston look for a model.

The history of the association has been both eventful and interesting. Prior to its establishment there was much opposition to it, on the ground that it was an “innovation upon the established order of things and of doubtful expediency,” but when the pressure in favor of its establishment became so great that opposition on the part of a few was no longer of any avail and it became an established fact, its great practical utility was quickly demonstrated and the opposing banks soon came into it.

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In less than two years after its formation the panic of 1857 burst upon the country, and in that crisis its usefulness was severely tested. In New York specie payments were suspended, whereupon the Boston banks immediately took action, and a committee was appointed to report to the association what course should be followed, in view of the action at New York. Upon the recommendation of that committee that Boston should follow the lead of New York, specie payments were suspended. It thus became necessary to provide some substitute for specie. Clearing-house loan certificates, based upon collateral as security, did not come into use until 1860, and hence a different course was taken from that generally pursued by clearing houses in similar emergencies since that time.

The association voted to permit its members to use their own circulating notes in the settlement of balances to a limited amount, based upon the capital of each bank, in no case exceeding 5 per cent, except in the case of the Suffolk Bank, which was allowed 10 per cent, it at the time being the redeeming agent for the note circulation of nearly all the New England banks. These bills thus received at the clearing house were to be returned to the next day's settlement, and were to be at the joint risk of the banks in proportion to the amounts of their respective capitals; and the clearing-house committee were authorized to demand at their discretion satisfactory collateral security for such bills. The banks using their notes at the clearing house were required to pay one day's interest at a time.

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The association, on the day following that upon which this plan was adopted, having been addressed by a committee representing the merchants of the city, who expressed their desire for an expansion of the bank loans, voted that the amount of circulating notes that may be used in settlements at the clearing house be doubled. At a subsequent meeting, in order to encourage the use of specie, it was voted that the manager keep an account of the specie paid in by each bank, and in subsequent settlements repay to such bank, when a creditor, specie, this reimbursement to be in the order of payment by the banks.

A few weeks later the association voted that the amount for which the bills of the associated banks may be used in the liquidation of balances at the clearing house, be reduced 50 per cent, and on December 14, 1857, just two months after suspension, a unanimous vote was cast in favor of the resumption of specie payments. It is probable that for a short time thereafter the use of bank notes was continued, but within a week it was voted to discontinue altogether their further use at the clearing house.

From this time on the exchanges took place with little interruption till the outbreak of the civil war, when anxiety and distrust again seized upon the country. In the latter part of 1860 it was voted to permit the banks to settle their balances at the clearing house with their own circulating notes to the extent of 10 per cent of their capital, it being voted at the same time that it was the duty of the banks to maintain specie payments in that crisis. There was much disturbance in financial circles from that time forward, and on August 27, 1861, the association

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voted that any bank that had agreed to the arrangement entered into by the banks in New York, Boston, and Philadelphia, with regard to the national loan, could deposit with the clearing-house committee treasury notes of that loan and receive certificates to an amount not exceeding 90 per cent of the par value of such treasury notes. These certificates were to be known as loan certificates and were to be receivable at the clearing house in the settlement of balances. These were the first certificates of the kind issued by the Boston association.

Not long thereafter the New York clearing house again suspended specie payments and was followed almost immediately by Boston, in a resolution declaring that they had suspended specie payments until such time as they could with safety resume their legitimate basis for circulation and deposit. That time did not, in the course of events, arrive until seventeen years had passed by.

Affairs drifted on from bad to worse until the panic of 1873, when the association again authorized the issue of clearing-house loan certificates, secured by collateral, on substantially the same basis as the issue by the banks in New York. No further action of this kind was taken by the association until seventeen years later, when, in 1890, certificates were again issued, and these were followed by similar issues in 1893 and 1895. Such are the important features of the association's history.

The Boston clearing house is located at a central point in State street. Here, at 10 o'clock in the morning of each business day, the representatives of eighteen banks, members of the association, meet and exchange the items

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which they hold upon each other. The process of exchanging items is precisely the same as at New York, except that in Boston they have abandoned the practice of receipting for exchanges as delivered on the ground that it is a useless expenditure of time.

In the settlement of balances Boston has a system peculiarly its own. The constitution declares that "the debtor banks shall pay to the manager at the clearing house the balances due from them respectively, either in coin or in such other currency as the laws of the association shall require, or in such certificates as shall be authorized by the clearing-house association, excepting sums less than \$1,000, which may be paid in national-bank bills." Although coin is specified as acceptable in the payment of balances, it is tacitly agreed that no silver will be used, owing to its great bulk and consequent inconvenience.

All gold paid into the clearing house in payment of balances must be put up in strong canvas bags, each containing \$5,000, all coins contained in any one bag to be full weight and of one denomination, the bags to be securely fastened with a seal (bearing the name of the member putting up such package) in such manner that in the opinion of the manager of the clearing house the fastenings can not be sufficiently released to allow of the removal of any of the contents without mutilating the seal. Every such package must have a suitable label or tag attached bearing the name of the sealing member, the amount of the contents, denomination, date of sealing, and signature of the person or persons sealing the same.

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All packages containing legal-tender notes or United States gold certificates, for use in payment of balances at the clearing house, must be made up in even amounts of \$1,000, \$2,000, \$3,000, \$4,000, \$5,000, \$10,000, \$20,000, \$50,000, or \$100,000 each. Notes of smaller denominations than \$500 must be put up in packages containing notes of but one denomination and not more than one hundred notes each.

All packages must be distinctly marked with the name of the bank, the date, and the amount of money.

Reclamations for errors and deficiencies in coin received at the clearing house contained in bags or other packages, sealed and marked in conformity with rules which may be established by the committee, are to be made by the receiving banks directly against the banks whose marks they bear, the clearing house not being responsible for the contents of such sealed bags or packages, and such reclamations shall be made not later than 2 o'clock p. m. on the day next following receipt.

Each debtor bank, at the hour for making its settlement at the clearing house, sends a ticket with an itemized statement of its balance, as shown in the illustrations.

On the back of the receipt which the manager gives the bank for its balance, copy of which is also shown among the illustrations, is a similar blank, and upon this, after counting each balance as it is paid in, he itemizes it, and if he finds that his statement agrees with the one sent in by the bank he makes out a receipt for the whole, being satisfied that his work is correct. He retains any orders received from creditor banks as his receipts for their balances.

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Boston,			
BALANCE PAID CLEARING-HOUSE THIS DAY BY			
FIRST NATIONAL BANK.			
Be sure and itemize your balance. Have bills properly strapped and distinctly marked.			
Change - - - -			
Bills - - - -			
Legal Tenders -			
C.H. Gold Ctfs. -			
Coin - - - -			
Gold Certificates-			
Orders - - - -			
Amount - - -			

FORM OF TICKET USED BY BOSTON BANKS IN CONNECTION
WITH PAYMENT OF DEBIT BALANCES.

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Many years ago the custom sprang up at Boston of borrowing and loaning balances at the morning exchanges, and the settlement of the same by orders on the clearing house, and at one time this practice was an important feature of the clearing system. During the past few years, however, the practice has been largely discontinued, and only occasionally does one bank now borrow from another on account of its debit balances. Groups of officers may still be found at the clearing house each morning, but generally for the purpose of buying and selling New York exchange, and not for borrowing and loaning balances, as heretofore, although occasionally a debtor bank or banks still borrow from a creditor bank or banks for the purpose of paying clearing-house balances.

The borrowing and loaning of balances had its inception in a small way some thirty years since, as a matter of convenience to debtor banks, and is quite unlike anything else in the clearing houses of the United States. Before its adoption debtor banks which found their balances at the morning exchanges too great for convenient settlement with cash, but which could easily call in the necessary amount later in the day, were accustomed to send their representatives through the streets to borrow from neighboring banks. Owing to the inconvenience and risk of this practice, the presidents and cashiers of the banks began to meet at the clearing house, and then, after the exchanges had taken place, to borrow and loan their balances. The custom found favor with the banks, and at one time had grown to such considerable proportions that some 60 per cent of the total balances were settled in

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RECEIPT TICKET.	No. 2. BOSTON CLEARING-HOUSE, Received from National Union Bank, Dollars in full for balance due the Clearing-house. \$ _____ _____ Manager.
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Clearing - House Methods

that way. On the floor of the clearing house at each morning exchange could be seen a busy group of bank officials, some borrowing balances, others negotiating loans.

A may find himself a heavy debtor and may desire to borrow of B, whose balance is a heavy credit. If B wishes to loan to A, he gives him an order on the clearing house, and the latter uses it the same day in the settlement of his balance. All orders, therefore, on the clearing house are accepted by the manager in the settlement of balances to the full extent of their face value. But A may not desire but a small part of B's balance, in which event B may find a dozen other banks anxious to borrow, to each of whom he may loan a portion. Again, some, not finding it advantageous either to borrow or loan, settle their balances by the usual cash payments at the clearing house. In practice, some banks habitually loan, but never borrow. Others habitually borrow, but seldom or never loan.

Although no direct losses have ever occurred from this practice, it is strenuously opposed by conservative bankers on the ground that it is dangerous for banks to borrow so heavily when they may be called upon for the full amount of the loan without a moment's warning. For example, A loans B \$75,000 to-day, and the latter uses it in the settlement of his balance. B does not find it convenient to return the loan to-morrow, and A, finding an opportunity a day or two later for a better investment, sends through the clearing house a check on B for the full amount. The latter is left with no alternative but to pay the balance or fail. Any objection, therefore, to such a custom seems on its face plausible, but in practice, as

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BOSTON CLEARING-HOUSE.	
\$_____	Boston,_____
Transfer to the Credit of THE_____	_____or order,
	_____THOUSAND DOLLARS,
And Charge the same in Settlement of the balance due to	
THE_____	
To C. A. RUGGLES, Manager.	
	_____Cashier.

FORM IN USE IN BOSTON FOR TRANSFER OF BALANCES.

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is claimed, a severe check is placed upon the borrower by the discretion of the loaner. It is practically impossible for any member to be a habitual borrower without its being known to the other members. Thus creditor banks are enabled to exercise proper care in making loans, and thereby to avoid loss.

The rate of interest on such loans corresponds very closely with the rate on call loans. The newspapers regularly report the clearing-house rate, and this doubtless has some influence on the rate in the market. A prominent banker has said that the effect of this custom is to make the rate higher than it otherwise would be, as the banks needing the money must have it, no matter what the rate may be, but in a weak market it has the effect of making the rate lower, since banks having a surplus will accept a low rate rather than hold cash over.

One important disadvantage of this plan of borrowing and loaning balances, and one which has come into prominent notice in certain instances of late, should be mentioned in this connection. A bank that is a borrower of clearing-house balances is thereby deprived of the assistance in time of distress afforded by clearing-house loan certificates. As before mentioned, the members of the clearing house who are lenders of balances are very sure to know of a given bank that is an habitual borrower, and accordingly they are on their guard, watching for the opportunity to call for the amounts they have loaned whenever it would seem that the debtor bank could pay the same. As soon, therefore, as the debtor bank arranges for clearing-house loan certificates, its fellow-members, who are its

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creditors, hold out their hands for them, thereby exchanging unsecured claims against the bank for the very best security that it can put up. The debtor bank then is deprived of the advantage of clearing-house loan certificates up to the amount of its indebtedness to its fellow-members.

To put it otherwise, the act of borrowing balances in the clearing house anticipates the help that otherwise the clearing house could and would be to the bank when it really needed assistance. It is, of course, impossible to eat the cake and have it too. During the time this custom has prevailed in Boston, many banks, first and last, have found themselves embarrassed thereby, and have been compelled to struggle along in seasons of stringency without the help that clearing-house loan certificates would have afforded them, simply because to have asked for them would have advertised their condition in a manner to bring one class of their creditors down upon them in a way to nullify all the assistance they had obtained, and perhaps also draw the attention of the business public to their embarrassed condition, after they had exchanged their good bills receivable for clearing-house loan certificates.

The plan of borrowing and lending balances, although very generally acquiesced in by the banks of Boston, would seem to be fraught with danger. It would be less alarming, in the estimation of many conservative bankers, if the creditor banks were obliged by clearing-house rules to report from day to day to what institutions they have loaned their balances, either in whole or in part. Trans-

TON,

1909.

LEGAL TENDERS.	SPECIE,	BANKS.	
201,000	1,055,000	National Union	2
28,000	185,000	Old Boston National	3
393,000	901,000	State National	4
63,000	35,000	New England National	5
117,000	376,000	Atlantic National	12
185,000	950,000	Merchants National	13
639,000	2,201,000	Second National	17
1,076,000	7,610,000	National Shawmut	20
259,000	1,260,000	Nat'l B'k of Commerce	22
38,000	483,000	Webster and Atlas Nat'l	25
329,000	1,035,000	Eliot National	26
29,000	352,000	Boylston National	32
635,000	6,000,000	First National	39
132,000	101,000	National Security	46
455,000	477,000	Fourth National	51
107,000	348,000	Winthrop National	53
46,000	180,000	Commercial National	56

4,735,000 23,599,000

DEC.

DEC.

129,000

53,000

ONS FOREIGN DEPARTMENT.

11,072,516

10,810,682

10,287,694

STATEMENT OF THE ASSOCIATED BANKS OF BOSTON,

As returned to the Clearing-house, for the week ending Saturday, August 14, 1909.

BANKS.	CAPITAL.	LOANS.	CIRCULATION.	INDIVIDUAL DEPOSITS.	DUE TO OTHER BANKS.	UNITED STATES DEPOSITS.	DUE FROM RESERVE AGENTS.	EXCHANGES FOR CLEARING-HOUSE.	DUE FROM BANKS OTHER THAN RESERVE AGENTS.	FIVE PER CENT. FUND.	LEGAL TENDERS.	SPECIE,	BANKS.
2 National Union	1,000,000	9,637,000	147,000	8,370,000	2,839,000		1,446,000	703,000	660,000	7,500	201,000	1,055,000	National Union
3 Old Boston National	900,000	2,674,000	49,000	2,018,000	240,000		387,000	183,000	67,000	2,500	28,000	185,000	Old Boston National
4 State National	2,000,000	10,163,000	223,000	7,662,000	3,522,000	1,000	1,472,000	561,000	1,592,000	11,650	393,000	901,000	State National
5 New England National	200,000	668,000	99,000	530,000	271,000	1,000	93,000	16,000	262,000	5,000	63,000	35,000	New England National
12 Atlantic National	750,000	3,633,000	207,000	3,791,000	1,343,000	1,000	548,000	302,000	984,000	10,350	117,000	376,000	Atlantic National
13 Merchants National	3,000,000	16,449,000	1,426,000	9,916,000	2,964,000	101,000	1,438,000	1,350,000	572,000	76,000	185,000	950,000	Merchants National
17 Second National	2,000,000	20,882,000	697,000	21,130,000	5,478,000	1,000	3,944,000	1,603,000	1,898,000	35,250	639,000	2,201,000	Second National
20 National Shawmut	3,500,000	63,874,000	454,000	56,335,000	29,089,000	1,192,000	12,003,000	4,354,000	7,624,000	74,000	1,076,000	7,610,000	National Shawmut
22 Nat'l B'k of Commerce	1,500,000	11,135,000	50,000	11,886,000	1,781,000	1,000	2,381,000	958,000	580,000	2,500	259,000	1,260,000	Nat'l B'k of Commerce
25 Webster and Atlas Nat'l	1,000,000	5,380,000	181,000	4,041,000	649,000	1,000	582,000	168,000	314,000	9,250	38,000	483,000	Webster and Atlas Nat'l
26 Eliot National	1,000,000	10,753,000	990,000	7,192,000	4,482,000		1,373,000	714,000	684,000	50,000	329,000	1,085,000	Eliot National
32 Boylston National	700,000	3,052,000	149,000	2,692,000	272,000		320,000	134,000	149,000	7,500	29,000	352,000	Boylston National
39 First National	2,000,000	44,030,000	800,000	34,721,000	28,680,000	708,000	8,896,000	2,062,000	1,167,000	40,000	635,000	6,000,000	First National
46 National Security	250,000	2,382,000	248,000	1,808,000	153,000		232,000	92,000	339,000	12,500	132,000	101,000	National Security
51 Fourth National	1,000,000	6,890,000	389,000	7,176,000	1,233,000	1,000	995,000	575,000	715,000	20,000	455,000	477,000	Fourth National
53 Winthrop National	300,000	3,293,000	298,000	2,509,000	1,045,000	1,000	436,000	148,000	333,000	15,000	107,000	348,000	Winthrop National
56 Commercial National	250,000	1,951,000	148,000	1,922,000	183,000		263,000	149,000	154,000	7,500	46,000	180,000	Commercial National

AGGREGATES. 21,350,000 216,846,000 7,555,000 183,738,000 84,224,000 2,009,000 36,809,000 14,072,000 24,099,000 386,500 4,735,000 23,599,000

COMPARISONS. DEC. DEC. DEC. DEC. DEC. INC. DEC. INC. DEC. DEC. DEC. DEC.

403,000 11,000 1,615,000 497,000 9,000 384,000 2,560,000 236,000 2,000 129,000 53,000

Reserve excess, Boston, 986,000. Decrease, 158,571. Excess with Reserve Agents, 9,461,000. Increase, 407,429.

	EXCHANGES.	BALANCES.	COLLECTIONS FOREIGN DEPARTMENT.
Week ending August 14, 1909	149,210,030	9,773,688	11,072,516
Corresponding week 1908	141,234,242	8,393,710	10,810,682
Week ending August 7, 1909	171,902,286	11,090,558	10,287,694

STATEMENT OF WEEKLY AVERAGES OF THE ASSOCIATED BANKS OF BOSTON.

Average Weekly Return

To the CLEARING-HOUSE ASSOCIATION, from the BANK
in the City of Boston, made up at the close of business on Saturday,

CAPITAL.	LOAN.	CIRCULATION.	INDIVIDUAL DEPOSITS.	DUE TO BANKS.	UNITED STATES DEPOSITS.	DUE FROM RESERVE AGENTS.	EXCHANGES FOR CLEARING-HOUSE AGENTS.	DUE FROM BANKS OTHER THAN RESERVE AGENTS.	FIVE PER CENT. FUND.	LEGAL TENDERS.	SPECIE.

Cashier.

FORM OF AVERAGE WEEKLY RETURN IN USE BY THE ASSOCIATED BANKS OF BOSTON.

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actions of this kind, it would seem, ought to be noted in the clearing-house records.

A special committee has in charge the deposits of gold coin and gold, silver, and legal-tender notes, by member banks of the Boston clearing house as a special trust fund, against which negotiable certificates are issued. The gold coin and various kinds of notes are stored in rented vaults, the clearing house occupying leased quarters and therefore having no accommodations of its own suitable for the purpose. The fund so deposited at the present time amounts to about \$3,000,000 in gold coin and about \$4,250,000 in notes, and certificates to a like amount have been issued against it.

On obtaining the written assent of the clearing-house committee, members of the association are allowed to clear for outside banks and trust companies; but any bank, member of the association, making such exchanges, is liable therefor, and in the same manner as for its own exchanges and until at least one day's notice in writing is given to the clearing-house committee. Accordingly, in Boston and vicinity, and within a radius of ten miles from State street, are no less than 24 banks and trust companies making their exchanges through members of the association, upon such terms of security as are agreed upon between them and the clearing members. Full responsibility for their acts is placed upon the members through which they clear.

No statements whatsoever are required by the association from such outside institutions, it being left wholly to the members to determine their condition. Members,

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however, are required to furnish the manager weekly statements of condition. An example of the form employed is given among the illustrations. A statement is also submitted of the condition of the associated banks of Boston, as returned to the clearing house for a given week.

It will be noted further that there is a wide difference in the items included in the two statements. At Boston they are given under 12 heads, and at New York under 7. The only item called for by the New York statement, not included in the same at Boston, is "Net profits," while the item of "Loan" in the Boston statement is reported as "Loans and discounts" in New York. "Deposits," as reported at New York, is given in Boston under three heads, "Individual deposits," "Due to banks," and "United States deposits." "Bills payable," which formerly appeared in the Boston statement, has been omitted for several years past. The requirement of the items, "Due from reserve agents," "Exchanges for clearing house," "Due from banks other than reserve agents," and "5 per cent fund," is not made by the New York association.

In addition to the protection furnished by these statements, the clearing-house committee is empowered to examine any bank belonging to the association, and to require from said bank securities of such an amount and character as the committee may deem sufficient for the protection of the balances at the clearing house, whenever it shall be for the best interests of the association. Thus a member may be found to be weak and in danger of failure. If it is unable to pay its balances

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at the clearing house, these securities will be appropriated for that purpose.

The expense of printing is borne equally by the members, and all other expenses are defrayed by an annual assessment of \$125 upon each member, and the remainder after that amount pro rata the average daily amount which each bank has sent to the clearing house during the preceding year.

Upon each nonmember clearing through the association an assessment is made as follows: Four hundred dollars per annum on institutions whose capital is \$500,000 or less; \$600 on institutions whose capital is over \$500,000 and less than \$1,000,000, and \$800 on all whose capital exceeds \$1,000,000.

Admissions to membership may be made from time to time according to the following rule:

New members may be admitted to this association on the recommendation of the clearing-house committee, by an affirmative vote of three-fourths of all the members of this association, at a meeting called for the purpose, such vote to be taken by ballot; and each member thus elected shall, before admission, pay an admission fee of \$5,000 and assent and subscribe to this constitution in the manner hereinafter provided.

For cause deemed sufficient, any member may be expelled from the association by a majority vote of all the members. The constitution declares that before withdrawal a member must pay its due proportion of all expenses for the current year and give three months' notice in writing of such intention to the secretary.

In practice, however, if a member desiring to withdraw pays its expenses, in compliance with the above requirement, and there is no objection on the part of the association, it may withdraw in less than the speci-

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fied time, as was true of the Hancock Bank, which withdrew on thirty days' notice. The power of suspension is lodged with the clearing-house committee, but at least four of the five members of the committee must be in favor of such suspension, and the committee must forthwith call a meeting of the association to take the matter into consideration.

As shown before, the clearing-house association at New York was the only one in America when the bankers at Boston founded their clearing house. In nearly all the details of method and administration the rules established at New York were taken as a basis. As time went by a few changes were found necessary, particularly in reference to administration, and hence it is unnecessary here to deal elaborately with this phase of the subject.

The usual meetings of the association are held once each year, and at such other times as the clearing-house committee may designate on their own responsibility or when requested to do so by any five of the associated banks. Owing to the difficulty of obtaining a quorum, the required number was fixed at one-third instead of one-half of all the members, as in most associations.

At each annual meeting a chairman and a secretary are chosen by ballot, to hold office for one year or until their successors are chosen. At the same meeting a nominating committee of three persons is selected, whose duty it is to present to each bank belonging to the association a list of nominees for officers for the succeeding year, such list to be presented at least two weeks before the

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meeting next after their election. A standing committee of five bank presidents or other directors of banks, members of the association, to be called the "clearing-house committee," is elected annually, to serve for one year, and to their care most of the important interests of the association are intrusted, as at New York and elsewhere. They appoint the manager, whose salary is fixed by the association, and who is required to give bond in the sum of \$20,000, such bond to be approved by the clearing-house committee. The duties of the manager consist in supervising the exchanges between the banks and the settlements of balances. He is in immediate control of all the business transactions of the clearing house, discharging all the duties usually incumbent upon such officers.

In another chapter is given an account of the foreign department of the Boston clearing house, being the outgrowth of an experiment which was commenced in June, 1899.

CHAPTER XVII.

FOREIGN DEPARTMENT OF THE BOSTON CLEARING HOUSE.

ORGANIZATION AND HISTORY—REGULATIONS—TWO CLEAR-
ING HOURS — BLANKS AND FORMS — FINES — BOOK-
KEEPING.

The Boston Clearing House Association has had in operation for several years past a plan of making collections in the territory naturally tributary to that city but outside of the city itself. It is known as the "foreign department of the clearing-house association," and is conducted independently of the regular clearings of that organization.

The question of collecting out-of-the-city checks had been discussed by members of the Boston Clearing House Association for a long time, and finally, early in the year 1899, a special committee was appointed to which the whole subject of collecting checks throughout the district known as New England was referred. This committee, after careful deliberation, reported that in its judgment it was advisable and practicable for the clearing house to undertake the collection of such checks and to distribute the proceeds thereof. The committee advised beginning with the State of Massachusetts, and adding the other New England States one by one, as soon as the proper provision for the same could be made.

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The report of the committee further recommended that the work be done at the clearing house by the manager, under the supervision of the clearing-house committee. It nominated the following routine:

Those banks which choose to avail themselves of this method of collecting their checks shall deposit them at some fixed hour, say at 1 o'clock, of each day. The checks are then to be assorted and the checks on each out-of-town bank made up in a separate package. To this package a slip shall be attached bearing a list of the checks, and, further, a complete list is to accompany the checks, showing the total of the amount on each bank, respectively. The clearing-house employees assigned to that duty shall send the checks forward to the banks on which they are drawn, so far as such banks will undertake to remit for checks on themselves by drafts on their Boston or New York correspondents.

It was further suggested that in some cases checks on all the banks in one town or city might be collected through a single bank. The checks were to be sent by mail or by express, as found desirable.

The report further set forth that the manager of the clearing house should have a desk and number assigned to him, and should take part in the morning settlements, collecting through such settlements the various checks on Boston banks received by him, and paying in the same way to the Boston banks their respective proportions of the checks forwarded two days previously, as might be arranged. Each day's settlements by the manager, the report continued, should represent the amount of foreign checks received on a certain previous day, and the debits and credits should be equal in amount. In case, however, remittances should be delayed so that the manager was without sufficient funds to meet the charges against him, he would charge against the several banks, through the morning settlements, their respective amounts of such

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delayed remittances, or settle with the banks in their respective proportions of such delayed remittances in the payment of balances by the debtor banks and the distribution of balances to the creditor banks. The report was accompanied by various forms which were subsequently adopted for use.

This report was approved, and at a meeting held December 18, 1899, the following amendment to the constitution, which had been recommended by the clearing-house committee, was adopted:

The clearing-house association shall have the power to establish rules and regulations regarding collections by members of the association, or banks, or trust companies, or others clearing through such members, and the rates to be charged for such collections, and also to provide for the enforcement of the same. The association may from time to time make any additions to or changes in such rules and regulations as it deems judicious. Any rule or regulation upon the subject can be established only by a vote of the majority of all the members of the association, and when once established it shall not be altered until it has been in force at least three months, and then only by a majority vote of all the members of the association.

Under this provision rules and regulations were adopted at a meeting held December 27, as follows:

SECTION 1. These rules and regulations shall apply to all members of the association and to all banks or trust companies or others clearing through such members. The parties to which the same so apply are hereinafter described as collecting banks.

SEC. 2. For all checks and drafts from whomsoever received, drawn upon any New England bank or trust company or banking house or other banking institution, which does not pay checks and drafts drawn upon itself and sent through the Boston clearing house by remitting therefor on receipt thereof promptly at par checks upon some member of the Boston or New York clearing house, or upon a banking institution clearing through some such member, the collecting banks shall charge not less than one-tenth of 1 per cent of the amount of such checks and drafts, respectively.

SEC. 3. In case the charge upon any check or draft at the rate above specified does not equal 10 cents, the collecting bank shall charge not less than that sum; but all checks and drafts received from any one depositor

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or correspondent on the same day, and payable by the same institution, may be added together and treated as one item for the purpose of fixing the amount to be charged.

SEC. 4. The charges herein specified are in all cases to be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall directly or indirectly allow any abatement, rebate, or return for or on account of such charges or make in any form any compensation therefor.

SEC. 5. In case any member of the association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the chairman of the clearing-house committee or, in his absence, to the manager of the clearing house. Upon receiving information from any source that there has been a violation of the same, said chairman or, in his absence, said manager shall call a meeting of the committee. The committee shall investigate the facts and determine whether a formal hearing is necessary. In case the committee so concludes, it shall instruct the manager to formulate charges and present them to the committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have the right at any hearing to introduce such relevant evidence and submit such argument as it may desire. The committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted, and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the committee shall call a special meeting of the association and report thereto the facts, with its conclusions. If the report of the committee is approved by the association, the collecting bank charged with such violation shall pay to the association the sum of \$1,000; and in case of a second violation of these rules and regulations, any collecting bank may also, in the discretion of the association, be excluded from using its privileges, directly or indirectly, and, if it is a member, expelled from the association.

SEC. 6. Every collecting bank, as defined in section 1 of these rules and regulations, shall forthwith adopt, by its board of directors, a resolution in the following terms, and file a certified copy thereof with the association as evidence as therein specified:

Whereas this corporation has acquired the privilege of clearing and making exchange of its checks through the Boston Clearing House Association, and is subject to its rules and regulations: Now, therefore,

Be it resolved, That this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the city of Boston which may be established pursuant to the constitution of said association, and that the president of this corporation is hereby instructed to file a certified copy of this resolution with the clearing-house association as evidence of such assent and agreement on the part of this corporation.

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It was provided that the above should go into effect on January 1, 1900. In putting the plan into operation, the manager of the clearing house prepared two lists of banks, one comprising those banks the location of which with respect to the closing of mails, etc., required that checks should be deposited with the manager not later than 1 o'clock and the other permitting the deposit of checks not later than 3 o'clock of each business day, in order to be sent in the mail of the same day. This resulted in what is in effect two clearing hours for the foreign department. Saturdays are exceptions to the general rule, and with respect to that day it is provided that all checks shall be deposited not later than 1 o'clock. These requirements were later changed so that the checks to be so cleared shall be deposited not later than 3.30 o'clock on each business day, except Saturday, when it is provided that they shall be received not later than 1.15 o'clock, thus giving the banks from fifteen to thirty minutes more leeway than was originally provided.

The regulations for the collection of out-of-town checks, formulated by the manager of the clearing house, include the following:

Every check must be stamped by the bank depositing it, according to the following form:

Received payment through the Boston Clearing House. Prior indorsements guaranteed. -----Bank of Boston by ----- Cashier.
--

Form I.

BOSTON CLEARING-HOUSE.

FOREIGN DEPARTMENT.

Received from National Union Bank, No. 2,

Proportion of collections on sundry New England banks
for which remittances have not been received . . . \$

Charge this receipt to No. 100 through
the exchanges of day following above date.

Manager.

FORM OF RECEIPT FOR PRO RATA CHARGE ON ACCOUNT OF UNCOLLECTED CHECKS.

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The checks on each bank must be placed in a separate package, with a slip attached containing a list of the checks, the name of the bank on which they are drawn, and a footing; and the check ticket attached to the slip must also be filled out and the name of the bank and the footing of the checks placed thereon. Whenever there is but one check on a bank it will still be necessary to have the clearing-house slip attached, with the name of the bank and the amount of the check placed upon both slip and check ticket. These packages must be assorted alphabetically, according to the names of the respective towns in which the banks are situated, and must be delivered by the messengers of the banks at the proper desks for the respective letters.

By 1.15 o'clock p. m. on Saturdays, and on other days before 3.30 o'clock p. m., each bank must send to the clearing house, by its messenger, a ticket showing the total amount of checks left for collection that day, and receive a charge ticket showing the date on which it is to be charged into the regular morning settlements against the manager. The manager is known as No. 100, and joins in the settlements on the same footing as any one of the banks.

Banks are requested to see that all indorsements are in order. No examination of packages or checks will be made by the officers or employees of the clearing house.

If the remittance from any Massachusetts bank shall not have been received on the morning on which the charge tickets are to be charged against the manager of the clearing house, the manager will charge against each Boston

National Monetary Commission

Boston Clearing-house.

**Gloucester Safe Dep. & Tr. Co.,
Gloucester, Mass.**

FROM

DATE _____

--	--	--	--	--	--

**Gloucester Safe Dep. & Tr. Co.,
Gloucester, Mass.**

FROM

DATE _____

\$			
----	--	--	--

FOREIGN SLIP AND CHECK TICKET, BOSTON CLEARING-HOUSE

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bank its proportionate amount of such delayed remittance, as well as the amount of any protested or unpaid checks received from any Boston bank.

New York exchange and currency received in payment of collections will be charged at par against the several Boston banks from time to time, under the direction of the clearing-house committee, in proportion to the business of each bank, and the amounts of any such charges will be reported to the president, cashier, or other representative of each bank at the 1.15 o'clock clearing.

A fine of \$2 will be collected from any bank which is late at either the 1.15 o'clock or the 3.30 o'clock settlement, and its checks may be refused by the manager, at his discretion, if presented more than ten minutes late. Any bank not sending to the manager of the clearing house by 1.15 o'clock on Saturdays, and on other days before 3.30 o'clock, a ticket showing the total amount of out-of-town checks it has deposited at the clearing house that day will be fined \$4. A fine of \$4 will also be imposed for any mistake in the amount of such deposit so reported. An incomplete or incorrectly filled slip or check ticket is fined \$1.

The forms used by the foreign department of the Boston Clearing House—in fact, the actual stationery—have been largely borrowed from the forms employed in the regular clearings. Minor adaptations have been made in certain forms, and in cases where absolutely necessary new forms have been designed and printed. The deposit ticket, a sample of which is shown among the illustrations, contains little more than the name of the bank making the deposit,

FORM B.

Boston Clearing-house.

FOREIGN DEPARTMENT.

Received from National Bank of the Republic.

No. 41,

New England Checks said to amount to . . . \$

Payable if good on
or when a remittance shall have been received.

Manager.

FORM OF RECEIPT, FOREIGN DEPARTMENT, BOSTON CLEARING-HOUSE.

C l e a r i n g - H o u s e M e t h o d s

the date, and the amount of checks left for collection. The receipt corresponding to this, which is also reproduced among the illustrations, is likewise very simple in its details. There is the name of the bank, the reported amount of the checks, the date at which the amount is payable, if the checks prove good, and the signature of the manager.

The detailed statements of checks deposited for collection, known as foreign slips, a sample of one of which is shown herewith, are of different colors of paper, thereby readily distinguishing the items of one State from those of another. Rhode Island, for example, is straw color, Connecticut blue, etc. This slip gives the name and the location of the bank on which the checks are drawn and the name of the bank depositing them for collection. There is a coupon at the bottom which recounts the name of the bank making the deposit, the date, the name of the bank on which the checks are drawn, its location, and the amount.

The letter form used in transmitting the checks for collection to the several banks on which they are drawn is presented among the illustrations. In the blank space below the signature of the manager the footings of the several slips prepared by the banks are inserted. As this account is made up, the stubs from the foreign-slip tickets (see previous illustration), being that part designated as the foreign-check ticket, is detached and is retained by the clearing-house manager as evidence of the amount that is inserted in the letter. The coupon at the bottom of the letter itself is likewise retained for

FORM A

Boston Clearing-house.

FOREIGN DEPARTMENT.

Maine _____

N. H. _____

Vt. _____

Mass. _____

R. I. _____

Conn. _____

From National Bank Commonwealth, No. 48,

New England Checks left for collection on _____

Amount, \$ _____

EXCHANGE TICKET FOREIGN DEPARTMENT. BOSTON CLEARING-HOUSE.

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bookkeeping purposes and is the basis for charging the account with the bank. The amount represented by it is the aggregate of all of the stubs of the slips inclosed with the letter.

For the purpose of making up the accounts—that is, filling out the letters of transmission and otherwise completing the work—a number of Burroughs's arithmometers are employed. In other words, the machine that is largely in use among banks throughout the United States for listing vouchers returned, etc., is used in making up the records of remittances. Enough of these machines are used, and so skillful are the employees in their manipulation of them, that in a surprisingly short period of time after the exchanges have been completed the lists for the individual banks are made up and the matter placed in the mails or the hands of the express companies, as the case may be.

The settling clerk's statement, also shown in the illustrations, has five columns. The first records debit remittance checks; the second column contains debit of uncollected checks; the third records credit checks for collection; the fourth, credit adjustments; and the fifth, credit receipts. This sheet in use is of the conventional size, with the names of the banks printed down the left-hand margin and numbered, and corresponding numbers placed at the ends of the lines on the right-hand margin.

The bookkeeping employed in the foreign department of the Boston clearing house is very simple in character. The outward posting mediums, as already explained, are the stubs of the letters. The inward posting mediums

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C. A. RUGGLES, Manager.

BOSTON CLEARING-HOUSE.

Boston, _____

To the Cashier of the

_____ National Bank of _____

Dear Sir :

Enclosed find checks on your Bank as listed below, for the amount of which please remit by return mail a draft on your Boston correspondent, payable to the order of the Manager of the Boston Clearing-house.

Please do not delay the protest or return of any check not good, but return it, under protest if necessary (*deducting check and fee from remittance*). Any special instructions on slip or check should be observed. *Do not protest checks of ten dollars or under unless requested to do so.*

Yours truly,

C. A. RUGGLES, Manager.

_____ National Bank _____

Date, _____ Amount, _____

FORM OF LETTER OF TRANSMISSION TO CORRESPONDENTS.

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are the letters from the out-of-town banks inclosing remittance checks. Of necessity, an account is opened with each bank to which collections are forwarded. At the outset it is charged with the amounts sent to it for collection, and in turn, as remittances are received, it is credited.

With respect to the inward posting mediums, it sometimes transpires that the banks making returns send back the original letter inclosing collections. This, of course, answers every purpose in the clearing house.

The ledger at present in use has the names of the various out-of-town banks printed down the left-hand margins of the page, there being a line to each. There is a debit and a credit column for each day occupying the space to the right of the names. The ledger is similar in form to certain varieties of deposit ledgers in use among banks, and is of a variety that is sometimes described as a progressive ledger. As already mentioned, the banks are debited with the items sent out and credited with the remittances. The debits, of course, precede the credits by one, two, three, or four days, according to the location of the banks. Wherever the remittances come in promptly, the columns, taking the banks collectively on a page, balance. Wherever one or more remittances are delayed, the columns, of course, are out of balance, thereby directing attention instantly to the delinquent.

The following is a memorandum of the volume of business in round figures, handled annually by this department of the clearing house:

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1900-----	\$541,000,000
1901-----	565,000,000
1902-----	607,000,000
1903-----	658,000,000
1904-----	594,000,000
1905-----	595,000,000
1906-----	635,000,000
1907-----	633,000,000
1908-----	564,000,000

The cost of collecting these items has averaged about 7 cents per \$1,000, the total cost of the maintenance of the department, including rent, clerk hire, and all expenses of every character, being about \$42,000 annually.

Six hundred and forty-one New England banks and trust companies are corresponded with at the present time, and the average number of packages handled daily during the year 1908 was 5,491. The average daily remittances by correspondents during that period has been 94 per cent, which means that only 6 per cent of the amount due daily was charged back pro rata, through the clearings, to the banks, in order that the manager's payments and receipts would each day exactly balance. The necessity for this charge back of 6 per cent is due to the fact that it is impossible to receive returns in less than three days from banks located in the northern part of the States of New Hampshire, Vermont, and Maine.

It is stated for this system, by those who are in close touch with it, that it accomplishes all and more than was expected of it, and that it has been the means of a big saving of money to the banks. That the banks have supported it loyally would seem to be indicated by the volume of business annually turned over to it for collection.

BOSTON CLEARING-HOUSE SETTLING SHEET.						
No.	BANKS.	DEBIT REMITTANCE CHECKS.	DEBIT UNCOLLECTED CHECKS.	CREDIT CHECK FOR COLL.	CREDIT ADJUSTMENTS.	CREDIT RECEIPTS.
2	National Union					
3	Old Boston National					
4	State National					
5	New England National					
12	Atlantic National					
13	Merchants National					
17	Second National					
20	National Shawmut					
22	Nat'l B'k of Commerce					
24	Faneuil Hall National					
25	Webster and Atlas Nat'l					
26	Eliot National					
32	Boylston National					
39	First National					
46	National Security					
51	Fourth National					
52	Metropolitan National					
53	Winthrop National					
56	Commercial National					
	FOOTINGS					

FORM OF SETTLING SHEET, FOREIGN DEPARTMENT, BOSTON CLEARING-HOUSE.

CHAPTER XVIII.

THE CHICAGO CLEARING HOUSE.

DATE AND HISTORY OF FORMATION—METHODS OF EXCHANGE — PRELIMINARY EXCHANGES AMONG MEMBERS—KINDS OF MONEY EMPLOYED IN SETTling BALANCES—TRADING BALANCES—NONMEMBER BANKS THAT CLEAR—STATEMENTS OF CONDITION—EXPENSES AND FINES — ADMISSIONS AND EXPULSIONS — VOLUME OF CLEARINGS—ADMINISTRATION.

The practical utility of clearing houses had been attested in the United States by more than ten years of successful operation, when Chicago, in April, 1865, formed an association on lines substantially identical with those of the leading cities of the East. Although the Chicago clearing house performs essentially the same functions as do the clearing houses of other important centers, yet in the course of time circumstances have wrought many changes in its constitution which have tended to give it a character peculiarly its own. The membership (now 20 in number) at the date of the organization embraced nearly all the banks and bankers in the city. Although at one time the list went up to 30, there are at the present time only 20 members, the vicissitudes of the banking business in Chicago in the interval accounting for the increase and subsequent decrease. The membership as at present made up

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embraces 9 national banks, 7 trust companies, 2 state banks, the Chicago branch of the Bank of Montreal, and the subtreasury of the United States at Chicago.

The requirements for membership at the outset were not so rigid as they are at present. No minimum limit was placed upon the capital necessary for membership. As a fact, many of the members had but small capital and limited experience. Further, at that stage of the development of the clearing system experience did not demand what has since been found to be very essential.

The Chicago clearing house progressed with uniform success from the date of its organization in 1865 until 1871, when all the interests of the city sustained a severe shock by the great fire which swept over the city. In that fire some portion of the records of the clearing house was lost. Soon after the fire the panic of 1873 occurred, and in that crisis a number of the members fell out of line. Still other vicissitudes, some of which were peculiar to the organization itself, served still further to retard its growth and progress. In 1882 the Chicago clearing house was formally incorporated under the laws of the State.

The failure of members in this organization has never given occasion for litigation. Those members who have been so unfortunate as to fail have seldom attempted to clear on the day of their failure. In most cases they have given notice of their condition in ample time for their exchange to be withdrawn. When, however, a failing bank has attempted to make its regular clearings and has not been able to pay the balance against it at

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the clearing house, all the exchanges presented by and against it have been returned and a new settlement made, the same as if it had not participated in the exchanges of the day. In this way those who had presented checks against the failing member were enabled to return them to their customers, thereby intrenching themselves against loss. No formal provision was made for such action at the outset, but as time passed on this course was found to be the best means by which to avoid serious complications. Accordingly, the rule has been embodied in the constitution. It is similar in its provisions to that existing in the constitutions of nearly all the clearing-house associations of the country.

The history of this organization shows comparatively few failures. The membership, however, has been repeatedly reduced by consolidations.

We now come to an analysis of the methods of exchange pursued by this body, and, as we proceed, we shall find that in these details Chicago, quite as much as any of the larger cities of the East, presents certain striking features of its own which are not to be found in the others.

The exchanges in Chicago are made on each business day at 11 o'clock, except Saturday, when they are made at 10 o'clock.

Each bank sends from two to three representatives to the clearing house, with its claims separately made out against each of the other members. One of the representatives of each bank stations himself immediately opposite the desk bearing the number of his bank, first

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having deposited with the manager a ticket which states the amount of the exchanges that his bank has sent to the clearing house. On receipt of the ticket the manager immediately enters in the credit column of the sheet before him the amount stated thereon. This sheet is ruled in four columns, for the entry of the credit and debit exchanges and for showing the credit and debit balances. Standing in front of each of the representatives of the banks above mentioned is the messenger from the same bank, with a bundle of exchanges ready to be delivered at the desk of each of the other banks.

Precisely at 11 o'clock, or as soon as all are present, a gong is struck, and thereupon the messengers begin the delivery of the checks, passing around the double row of desks and depositing with the clerk of each of the banks the exchanges drawn upon it. While delivering the checks the messenger passes from clerk to clerk a sheet containing the amounts to the debit of each, and upon this the several clerks receipt for the checks they receive.

When the packages have all been delivered and receipted for, they are taken to the several banks by messengers, the sheets being passed around by other messengers, who, with the clerks, remain at the clearing house. As the sheets are thus being passed along, each clerk enters the amount charged to his bank on the debit side of the page in a book which he has brought with him for that purpose.

These books are ruled in four columns, for the entry of the amount brought, the amount received, the credit

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balance, and the debit balance, respectively. One column is filled out before the messenger comes to the clearing house, and that is the amount brought, or, as described above, the credit column.

When the debit entries have all been made from the sheets, the balance is struck by taking the difference between the total of the amount brought and the amounts received. Each clerk now makes out, as quickly as possible, a ticket showing the total amount brought, the amount received, and the balance, and hands the same to the manager.

It is clear in each case that if the amount brought exceeds the amount received, the balance will be in his favor and vice versa. The manager, upon receiving these tickets, immediately enters the amounts in the debit column of his sheet, and the balances shown in the credit balance column, or the debit balance column, as the case may be. It now remains to foot up the columns. If the amounts brought and the amounts received agree, and if the debit and credit balances likewise agree, the manager announces that the work is correct, and thereupon the several clerks immediately return to their banks. If, on the other hand, these amounts do not agree, the discrepancy is announced by the manager, whereupon the clerks proceed to search for the error. A search of this kind requires skill and accuracy at figures, for it is frequently necessary to foot up long columns of figures and even to call back the entries between banks in order to locate the error. If the mistake is not soon found, the anxiety becomes apparent, for a fine of \$2 is imposed upon

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the unfortunate member whose error has caused the trouble if the mistake is not located in twenty minutes.

The custom of exchanging checks and other items among themselves before the hour for exchanging at the clearing house has grown up among the members of this organization. For example, members A, B, C, and D may be located in close proximity. Therefore, for convenience in making early entries of items, they exchange among themselves the checks which they hold against each other. The settlement of balances arising in this way is made at the same time and in the same manner as if the exchanges had taken place at the clearing house.

All banks which find themselves debtors in the exchanges are allowed from 12 to 12.30 o'clock to settle their balances with the manager at the clearing house. The creditor banks receive their balances between 12.30 and 12.45 o'clock. On Saturdays these transactions are one hour earlier.

The method of settlement in Chicago differs materially from that which prevails in New York, Boston, and Philadelphia, and, indeed, from that of all other important clearing houses in this country. Less than 25 per cent of the balances are settled with currency and gold coin. The latter is used only to a very limited extent.

The following is the substance of the by-law of this organization relating to kinds of money to be used in settlement of balances, as amended in October, 1899:

All payments to the Chicago clearing house by the different members of said association shall be made in United States gold coin or United States Treasury certifi-

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cates therefor payable in Chicago, in United States legal tender notes or Treasury notes, or United States Treasury certificates therefor payable in Chicago, and in United States gold and silver certificates.

All gold paid to the clearing house in settlement of balances shall be put up in strong canvas bags, each containing \$5,000; all coins in any one bag to be full weight and of one denomination; the bags to be securely fastened with a lead seal bearing the name and clearing-house number of the member putting up such package, in such manner that in the opinion of the manager of the clearing house the fastenings can not be sufficiently released to allow of the removal of any of the contents without mutilating the seal. Every such package shall have a suitable label or tag attached, bearing the name of the sealing member, the amount of the contents, denomination, date of sealing, and signature of the person or persons duly authorized to date or seal the same.

All currency other than coin paid to the clearing house in settlement of balances, except notes of the denomination of \$50 or larger, shall be put up in packages, each containing \$5,000 or \$10,000. All the notes included in any package shall be of one denomination, inclosed in bands containing each 100 notes and no more. The denomination, kind of currency, and amount shall be plainly marked on the cover of the package, with the name of the member of the association putting up the same, date of sealing, and signature of the person or persons duly authorized to date or seal the same. Every such package shall be inclosed between cardboards of the full width and

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REPORT TO MANAGER.

C. H. BANK No......

TRADES WHOLE BALANCE.

PAYS IN \$.....

COLLECTS \$.....

REPORT TO BANK.

C. H. BANK No......

DR. BAL. \$

CR. " \$

FORMS OF REPORTS USED IN TRADING BALANCES.

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length of the notes, placed on the upper and lower sides thereof, and shall be tied with twine and securely sealed with wax seals bearing the imprint of the member putting up the same. All notes included in such package shall be in good condition and fit for circulation and of the denomination of either \$5, \$10, or \$20.

For each and every violation of any of the regulations contained in the paragraphs relating to gold and currency above, the manager shall impose a fine of \$5 on the offending member.

The value of every package of gold or currency put up in accordance with the provisions of this by-law shall be guaranteed by the member whose seal it bears, until and including the 15th day of March, June, September, or December, whichever month shall come next after its authorized date, or redate, and in case of any shortage, either in count or weight, the member putting up the same shall on demand immediately make good any such shortage to the member breaking the seal. This guaranty shall not extend to any package which shall have passed into the hands of any person or corporation not a member of the association.

Chicago has developed a peculiar custom of trading balances, and so extensive has this practice become that perhaps 75 per cent of the balances are disposed of in this way. It began many years ago, and originated in a desire to avoid the counting and carrying of so much money through the streets as would be necessary to settle the balances. The trading is done mainly by the clerks at the clearing house. As soon as they strike their balance, and

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while the manager is entering upon his sheet the amounts and balances, and footing the columns, the clerks representing the creditor banks engage in loaning balances to the representatives of the debtor banks. The clerks are not given full liberty of action, but are very generally instructed by their banks regarding the amounts to be traded and the members with which trades may be made. Any member may trade its whole balance, or any part thereof. It may trade its balance to a single member, or to two or more members.

A notable example of this kind occurred in August, 1897, when the Northwestern National Bank traded its balance to 15 different banks. The credit balance of this bank was \$2,622,000, which amount was more than 98 per cent of the credit balance of all the banks, there being on that day only two other creditor banks out of the whole list of 22 members.

Some banks do not find it to their advantage to trade, and hence adjust their balances by cash settlements. At the conclusion of the trades, the representatives of the banks make out and hand to the manager reports of the tradings, as shown by the accompanying form. This form, it will be noticed, is provided with a coupon which embodies a report to the bank.

The formal order by which the transfer is made is shown in the second of the accompanying forms. Manifestly, it would be impossible for the manager of the clearing house to ascertain from the reports just illustrated whether a given bank had traded to a single bank or to a number of banks, and also with what bank or banks the trade had

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been negotiated. This fact is determined by an order or orders upon the manager of the clearing house from the cashier of each creditor bank which has negotiated a trade, to pay to a specified bank or banks certain portions of its balances each, such sum to be deducted from the balances due from the exchange of that day. For example, B, a creditor bank, gives an order on the manager of the clearing house, signed by the cashier, to pay C, D, or E, or any one of them, a part of its balance, or the whole of the sum which it may have traded to them at the clearing house. The manager deducts such an amount from the debit balances due the clearing house by C, D, and E, respectively. Hence they are required to pay to the clearing house only the difference between such orders and their debit balances.

The manager also obtains another kind of receipt—namely, the orders to the clearing-house manager to pay to the authorized messengers the balances in cash due from the exchanges of that day. The form of this order is also shown in facsimile herewith.

The settlements of the amounts of all orders are made between the banks concerned, the debtor banks giving to the creditor banks cashiers' checks, currency, or exchange for the amount of the trade, such checks always going through the exchanges on the following day. Suppose, for example, B's debtor balance is \$75,000 to-day, and that this amount is settled by a trade with some creditor bank. B gives to the creditor bank a cashier's check for \$75,000, which the latter will send through the exchanges to-morrow against B. Suppose also that in addition to the \$75,000, B's debit balance goes on increasing each day.

BANK NO. _____

Chicago, _____ 190 _____

W. D. C. STREET, Manager.

CHICAGO CLEARING HOUSE,

Pay _____ or order, \$ _____

_____ Dollars.

and deduct from balance due us this day.

_____ CASHIER.

FORM OF ORDER USED IN TRANSFERRING BALANCES THAT HAVE BEEN LOANED.

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It is evident that in that case B must cease to postpone an actual settlement by trading and instead make a cash payment at the clearing house.

This practice, it will be perceived, differs materially from that in vogue in Boston with respect to borrowing and loaning balances. In one case trades are made by the clerks; in the other they are restricted to one or another of the principal officials of the bank, who appears at the clearing house simply for that purpose. In the one case interest is required; in the other it is not. In the one case the checks on the debtor members go through the exchanges on the following day; in the other they do not so pass through at once, but may be held over indefinitely. In the one case the trading is solely an element of mutual convenience to members; in the other case it is an element of gain to the creditor bank.

Besides the regular members, there are about forty nonmember banks clearing through the Chicago clearing house. In other words, there is an average of two to each member. Most of those clearing in this way are private banks and trust companies. Since Illinois heads the list of States in number of institutions in this class, it is not surprising that the number in Chicago is so large, or that it should represent such a large fraction of the clearing-house business. Some comparisons may be interesting: In Boston the members exceed the nonmembers by about 33 per cent; in Philadelphia there is at the present time but one nonmember bank, while in New York the list of members and nonmembers is nearly even, there being a few less nonmembers than members.

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Up to January, 1907, the Chicago clearing house exacted no compensation for permitting outside institutions to clear through its members, but about that time an amendment was added to the constitution making it imperative for a member bank to first obtain the consent of the clearing-house committee before it could clear for an outside institution, and further obligated such member to pay the association annually for each of such outside banks, as follows:

For each bank having a capital of—

More than \$25,000 and less than \$50,000	\$150
More than \$50,000 and less than \$200,000	250
More than \$200,000 and less than \$400,000	350
More than \$400,000 and less than \$600,000	450
More than \$600,000 and less than \$1,000,000	600
Exceeding \$1,000,000	750

The amendment further provided that such banks and bankers should, under proper authority, consent to the same examinations and render the same statements of their condition as are required of the members of the association, and be subject to all such rules and regulations in matters of common interest arising from or affecting relations with banks in other localities, and the fostering of sound and conservative methods of banking, as have been or may from time to time be adopted by the association, and sign an agreement so to do in such form as the clearing-house committee may require.

Members of the association are required to furnish the manager statements of their condition, in accordance with the following rule: "Each member of this association shall furnish the manager, as often as five times yearly, a sworn statement of its condition, at such times as may be designated by the Comptroller of the Currency for

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statements from national banks; and at such other times and on such other dates as the clearing-house committee may require. Said statements shall be made in form and manner prescribed by the clearing-house committee. Said statements shall be open to the inspection of the members of this association, but otherwise shall be held strictly confidential." Many of the Chicago banks voluntarily publish their statements, though no requirement of the kind is made by the clearing-house association. The daily clearings are the only regularly published statistics of the association.

No items with restricted indorsements are allowed to go through the exchanges, the rule requiring that all checks and other paper for deposit shall be indorsed in blank, or simply "Pay to or order," without qualification.

The expenses of the Chicago clearing house are met by an annual assessment of \$750 upon each of the members, and the payment of the balance after that amount pro rata, according to the daily average of exchanges sent to the clearing house for the months of October, November, and December immediately preceding. The fines upon the members are devoted to the payment of expenses. The total annual appropriation for this purpose for many years was in the neighborhood of \$8,000, but the increase in expenses incident to the occupation of new quarters has made a considerably larger appropriation necessary.

The fines enforced by the Chicago clearing house are unusually heavy: For failure to be represented punc-

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tually at the morning exchanges for the first five minutes, or part thereof, the fine is \$3; for the second five minutes, or part thereof, \$10; and for tardiness exceeding ten minutes, \$25. So prompt, however, have been the members that the \$25 fine has never been imposed, and in only a few instances has the \$10 fine been assessed.

Banks desiring to become members make a formal application to the clearing-house committee. The latter thoroughly examines their condition and standing and makes a report to the association. The applicant then may be admitted on receiving the affirmative vote of three-fourths of the members of the association. The members are required to pay an admission fee of \$1,000, and to assent to the articles of incorporation and by-laws, thus being put upon the same footing as the original members. The by-laws provide that no new members shall be admitted except banks having their principal office located in the city of Chicago, organized under the laws of the United States or under the laws of the State of Illinois, and having done business therein, with their subscribed capital stock fully paid in, for a period of at least six months prior to the application for membership. It is further provided that no new member shall be admitted except banks having a paid-in capital of at least \$500,000, which capital shall be kept intact during the membership. The assistant treasurer of the United States located in Chicago may, upon application, be admitted to membership without the payment of an admission fee, but shall have no voice in the management. Any member may withdraw at pleasure, first

National Monetary Commission

paying its due proportion of all expenses incurred and signifying its intention to the clearing-house committee to withdraw.

In many clearing-house associations it is easier to expel members than to admit them, the vote being a majority for expulsion and three-fourths for admission. At Chicago, however, the conditions of admission and expulsion are the same, the requirements in each case being a vote of three-fourths of all the members.

In many of the most important cities of the country clearing-house loan certificates have been issued from time to time in seasons of great pressure—for example, as in the panics of 1873 and 1893—thus giving elasticity to the currency in times of greatest need and affording relief to the banks from the terrific strain upon them. In Chicago, however, up to 1907, such action had never been taken, although in 1893 the subject was under serious consideration and a vote of 15 to 9 was cast in favor of an issue. At this time extensive loans were made to the members who were most in need, the loans amounting to \$1,745,000. This represents the largest amount ever loaned in Chicago in this manner, and it was all repaid within sixty days from date. On other occasions banks that have been temporarily embarrassed, and which upon the careful examination by the clearing-house committee were found to be solvent and in possession of collateral sufficient to secure their loans, have been promptly assisted by their fellow-members in the clearing house, each furnishing aid in proportion to its capital and deposits. In 1907, however, the conditions

ISSUING C. H. BANK No. _____

_____ Chicago, _____ 190_____

W. D. C. STREET, Manager.

CHICAGO CLEARING HOUSE.

NOT NEGOTIABLE.

Pay _____ our authorized messenger,

when accompanied by _____ \$ _____

_____ DOLLARS, 100 _____

_____ Cashier.

Being the Balance due us from the Associated Banks in to-day's Exchanges.
Orders (if any) given to other banks this day will be received in part payment.

-25837

FORM OF ORDER ON CLEARING-HOUSE MANAGER FOR BALANCE DUE.

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were such that the issue of loan certificates seemed a desirable step to take, and they were accordingly put out under the resolutions, and in the amounts, described in a special chapter on the subject.

The Chicago clearing house has experienced various changes in the number of its members. The membership at one time was as high as 30, and, as already stated, is at present only 20; yet the record of clearings shows an almost uninterrupted increase from the beginning of the organization.

No losses have ever occurred from the enormous transactions which have been repeated from day to day during the thirty-two years of the history of the association. These exchanges are conducted by two men—the manager and one assistant—and their record is embodied in four books. One contains simply the copy of the manager's proof sheet, showing the debit and credit exchanges and balances of each bank, and the total of the same for all the banks. Another book, the items in which are posted from the first, contains a record of the daily debits, credits, and balances of each bank, kept apart from a similar record of each of the other banks. The third book contains a transcript of the total clearings and balances by days, weeks, and months. The fourth book is a record of the amount and kind of money paid by and to the several banks in settlement of balances. From these records the total transactions of each bank with the clearing house for a given period may be readily ascertained. The annual transactions beginning with 1865 have been computed and posted in this manner.

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In the rules of the Chicago clearing house due provision is made for the administration of its affairs in all details. The several powers are lodged in a president, vice-president, manager, secretary, treasurer, and clearing-house committee. In addition, five directors are charged with the responsibility of attending to all matters pertaining to the corporate existence of the association, the Chicago clearing house being the only incorporated clearing house at present existing in America.

The annual meeting is held on the third Tuesday in January, when the officers, directors, clearing-house committee, and manager of the clearing house are elected by ballot. A majority vote of a quorum determines the result, a quorum being a majority of all the associated banks. At this meeting each member of the association must be represented by one or more duly authorized persons, and is entitled to one vote. Besides the general meetings, the president is required to call special meetings whenever he may deem it necessary, or whenever he is so requested by five members of the association, or by the clearing-house committee.

The president and vice-president are constituted the officers of the association and must be elected from among the officers of members of the association. Upon the president, and in his absence upon the vice-president, devolves the duty of presiding at all meetings of the association and of calling the special meetings under the conditions named above. The manager has immediate charge of all the business of the clearing house, subject to the control of the committee. He supervises and directs the

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work of the clerks and messengers while in the clearing house, and, in addition, is ex officio secretary and treasurer of the association. As treasurer, he has charge of the funds belonging to the association and disburses the same on the order of the clearing-house committee. He is required to keep a correct record of all the money received and disbursed on account of the association, and to submit a detailed statement of the same at the annual meeting and whenever requested by the clearing-house committee. As secretary, he keeps the minutes of the proceedings of the association in a book provided for that purpose. His salary is fixed by the association and he is required to give a bond with sureties in a sum of not less than \$20,000, to be approved by the clearing-house committee. He is required to report to the committee all violations of the charter or by-laws that may come to his notice. He holds office until the next annual election, but is liable to suspension by the clearing-house committee or expulsion by the association.

The clearing-house committee consists of five members and is elected by majority vote by ballot at the annual meeting of the association. Upon this committee devolves the chief responsibility for the successful conduct of the affairs of the association. It is its duty when occasion demands to procure a suitable room or rooms for the clearing house, with all necessary articles for the convenient transaction of its business. The committee appoints the necessary clerks, establishes rules to be observed at the clearing house in cases not provided for in the con-

C l e a r i n g - H o u s e M e t h o d s

stitution, but subject to the approval of the association, and has general supervision of clearing-house affairs.

The clearing-house committee determines the assessment of each member for its quota of expenses, and orders the payment of bills by drawing on the treasurer for the same. The committee hears and determines all disputes arising between members of the association, when submitted to it by the parties in dispute, thus performing a function sometimes discharged by a separate committee known as the "arbitration committee." A record of each case of dispute is kept in a book provided for that purpose, which book is kept at the clearing-house and is open to the inspection of all the members. The committee fills vacancies in the offices or other committees, and has power to suspend the manager or any clerk, and any member of the clearing house, whenever such action is deemed advisable. Finally, it is the duty of the committee, whenever it may seem to be necessary, to examine any member of the association and establish a scale of fines for errors, disorderly conduct, or other irregularities of the representatives of the members.

CHAPTER XIX.

THE ST. LOUIS CLEARING HOUSE.

EARLY HISTORY—SCOPE OF MEMBERSHIP—PLAN OF ADMINISTRATION—MANAGEMENT OF CLEARINGS—RECORDS KEPT BY THE MANAGER.

The members of the St. Louis Clearing House Association have stood together with remarkable unanimity on the uniform rates of collection which were introduced on March 1, 1895, and their success is justly attracting the attention of similar associations throughout the country.

The St. Louis association was organized in 1868, in the midst of the period of reconstruction and when the country was slowly recovering from the blight of civil war. At the beginning there were 35 members, and in five years the list had grown to 41. This was in the troublous time of 1873, when the institution of clearing-house loan certificates first became general, and which has since proved invaluable in similar crises. St. Louis joined the other leading associations at that time in the issue of these certificates, but to what extent it is not known, the records, unfortunately, having been lost in a fire. In subsequent periods of financial stringency, except in 1907, the association has not found it necessary to resort to the issue of such certificates, although in 1893 some of the members were hard pressed and obtained relief through the association. The membership has greatly diminished since the date of organization, and, strange to say, is not

C l e a r i n g - H o u s e M e t h o d s

half as great now as in 1873. Some failures have occurred, but the change has been due, in the main, to consolidation and to voluntary liquidation.

Originally the membership embraced private banks, savings banks, and state and national banks, but now no private institutions are included. The present list comprises 17 members, there being 9 state banks and trust companies, 6 national banks, and the German Savings Institution. Besides these, the post-office clears without the full power of members, and is assessed not in proportion to clearings, but for a definite amount, fixed at \$40 a year.

Banks may become members of the association by a two-thirds vote of all the members and by the payment of an admission fee of \$1,000 in addition to the annual assessment for expenses; but, before applicants can be referred to the association for admission, their merits must be passed in review by the committee of management, and they must have a paid-up capital of not less than \$500,000. Any member may be expelled by a three-fourths vote of the members for violation of any of the articles, by-laws, or rules of the association. Likewise, any member may be suspended by the committee of management, provided a majority at least of the committee is present, and that the vote of those present is unanimous. It will be noted that the vote for expulsion is greater than that required for admission. This is the reverse of the rule in most associations, for, ordinarily, it is easier to get rid of a member than it is to admit him to membership.

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Besides the members, there are 35 outside institutions clearing through the association, 9 of which are trust companies, 16 are state banks, 1 is a savings bank, and 9 are national banks. The members clearing for outside banks and trust companies are liable for their checks and certificates of deposit, the same as for their own; and "their liability continues until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of such agency."

Section 3 of article 1 of the constitution provides as follows:

1 The officers of the association shall consist of a president and vice-president, who shall be selected from among the members of the association, and elected by ballot at a stated meeting in January, annually, and shall hold their offices until their successors are chosen and qualified, but shall not be eligible for reelection for more than two consecutive years.

Most clearing houses have embodied in their constitutions similar provisions, except that it is unusual to provide that members shall not be eligible for reelection for more than two consecutive years. There are also elected at the same annual meeting a manager and committee of management, as opposed to the usual custom of appointment of the manager by the clearing-house committee, and the election of the latter. In the hands of the committee of management is placed the power to examine the books and accounts of any member of the association, whenever they may deem it necessary, and to employ accountants to aid in such examination. They are authorized to suspend any bank from the privileges of the clearing house until the association has an opportunity to act upon it.

Clearing - House Methods

The president or, in his absence, the vice-president presides at all meetings of the association. He is required to call meetings of the same whenever, in his opinion, the interests of the association require it, or whenever requested to do so by the committee of management or any three members of the association. The manager, in addition to the usual duties falling to his office, acts as secretary and treasurer of the association.

Each member is required by the constitution to furnish the manager, for publication, "a sworn statement of its condition at such times as may be designated by the Comptroller of the Currency or the Secretary of State for statements from national or state banks, and at such times and dates as the clearing-house committee may require. Such statements are made in the form and manner prescribed for statements from national and state banks, and are open to the inspection of members of the association." This provision applies with equal force to all banks not members of the association clearing through members, but not to trust companies enjoying such privileges. Such statements are now published in the daily press.

The expense of printing is not borne equally by the members, but is apportioned in the same manner as the other expenses. Each bank pays \$250 annually in advance, and the expenses necessary after that amount are assessed quarterly upon the members according to the average daily amount of exchanges which each has sent to the clearing house during the preceding three months. Each nonmember clearing through a member pays \$250

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a year in advance, the manager, in January, sending a draft for this amount through the clearing bank against said nonmember.

The fines, which amount to from \$250 to \$850 a year, are collected from the banks by the manager and are paid by the offending clerks or by their banks, according to the nature of the offense. The total expenses of the association average about \$25,000 a year.

We have now to analyze the operations as they take place at the clearing house from day to day, and in this we shall find that St. Louis differs in some important details from associations in the East. The clearing room is a beautiful, centrally located apartment, and sufficiently elevated to command a delightful view of the city. Outside of New York, it is the most commodious and best-lighted clearing room in the United States, but it is not so artistically equipped as the clearing room at Pittsburg.

On each business day the clerks appear at the clearing room at 10.30 o'clock, except on Saturdays, and then at 9 o'clock, with their demands separately made out against each of the other banks, and with their items bound with a rubber band—not placed in envelopes, as is the case in most large cities. A facsimile of one of the lists used for the purpose is given in the illustration. Immediately upon his arrival each clerk delivers his items at the desks of the several members upon which they are drawn. The settling clerks sort, according to the number of the banks, the packages as they are deposited by the delivery clerks.

In five minutes after the hour appointed for the exchanges the settling clerks are in position, and at the tap

DEBIT LIST.

St. Louis Clearing-House,.....190

ON

3 Boatmen's Bank.....	3
6 Central National Bank.....	6
7 Commonwealth Trust Co.....	7
11 Franklin Bank.....	11
13 German American Bank.....	13
14 German Savings Institution.....	14
15 St. Louis Union Trust Co.....	15
16 International Bank.....	16
19 Merchants' -Laclede Nat. Bank.....	19
21 Mercantile Trust Company.....	21
22 Mississippi Valley Trust Co.....	22
26 National Bank of Commerce.....	26
27 South Side Bank.....	27
28 State National Bank of St. Louis.....	28
29 Third National Bank.....	29
32 Mechanics American National Bank.....	32
38 Post Office.....	38

Checks or other items cleared through a Member of this Association on a Bank or other Institution not a Member thereof shall be listed on and fastened to a separate slip, and the total footing of the slip entered as one item on the regular clearing slip. The clearing of such items loosely or in any other manner than herein provided is prohibited.

BANKS AND TRUST COMPANIES.

CLEARING THROUGH MEMBERS.

Bremen Bank.....	13	German American Bank.
Broadway Savings Trust Co.....	26	National Bank of Commerce.
Cass Avenue Bank.....	29	Third National Bank.
Chippewa Bank.....	26	National Bank of Commerce.
City National Bank.....	32	Mechanics-American National Bank.
Commercial Trust Co.....	32	Mechanics-American National Bank.
East St. Louis, Illinois State Trust Co. Bank.....	29	Third National Bank.
East St. Louis, Southern Illinois National Bank.....	32	Mechanics-American National Bank.
East St. Louis, Union Trust and Savings Bank.....	29	Third National Bank.
Farmers' & Merchants' Trust Co.....	32	Mechanics-American National Bank.
Grand Avenue Bank.....	7	Commonwealth Trust Co.
Granite City, First National Bank.....	26	National Bank of Commerce.
Granite City, Granite City National Bank.	29	Third National Bank.
Jefferson Bank.....	29	Third National Bank.
Jefferson & Gravois Trust Co.....	26	National Bank of Commerce.
Lafayette Bank.....	3	Boatmen's Bank.
Lemay Ferry Bank.....	29	Third National Bank.
Lowell Bank.....	32	Mechanics-American National Bank.
Madison, Ills. First National Bank.....	26	National Bank of Commerce.
Manchester Bank.....	29	Third National Bank.
Mercantile National Bank.....	21	Mercantile Trust Co.
Northwestern Savings Bank.....	29	Third National Bank.
Savings Trust Co.....	29	Third National Bank.
Scruggs, Vandervoort & Barney Bank...	3	Boatmen's Bank.
Southern Commercial and Savings Bank.....	13	German American Bank.
St. Louis County Bank.....	21	Mercantile Trust Co.
Trust Company of St. Louis County.....	11	Franklin Bank.
Union Station Bank.....	26	National Bank of Commerce.
Vandeventer Trust Co.....	32	Mechanics-American National Bank.
Washington National Bank.....	29	Third National Bank.
Webster Groves—Bank of.....	26	National Bank of Commerce.
Wellston—First National Bank.....	26	National Bank of Commerce.
Wellston—State Bank.....	29	Third National Bank.
West St. Louis Trust Co.....	16	International Bank.
Broadway National Bank.....	29	Third National.

FAC-SIMILE OF DEBIT LIST USED IN ST. LOUIS CLEARING-HOUSE.

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of the bell the distributing clerks proceed in line around the room, passing along the sheet containing a list of their exchanges, to be receipted for by the settling clerks. The credit and debit exchanges and the balances are listed by the manager in the usual way on his proof sheet. After striking the balance he calls off the credit and debit balances and they are listed by the clerks on sheets prepared in blank form for that purpose and taken back to their banks. The taking of such copies is optional with the members, it being intended for the information of any banks that may desire them. Hence the representatives of some of the smaller members do not remain to take them, but return to their banks immediately after the proof.

One hour after the exchanges the creditor members return to receive their balances, whereupon the manager issues to them his certificates of indebtedness by the debtor members, payable on demand to said creditor members "without recourse upon any member of the association after 2 o'clock p. m. of the same day, except the debtor members named in such certificates, and except on half-holiday Saturdays, on which days the certificates of indebtedness are issued without recourse upon any member of the association after 11 o'clock a. m. of the same day, except the debtor members named in such certificates."

Usually the manager's certificates are cashed at the counter of the debtor bank upon presentation of the same by the creditor bank, but sometimes they are certified by the latter and sent through the exchanges against them

ST. LOUIS CLEARING HOUSE.

Date _____ 190_____

Total Clearings, \$ _____

BALANCES.

Dr		Bank No		Cr.
		3		
		Boatmen's,		
		6		
		Central National,		
		7		
		Commonwealth Tr. Co.		
		11		
		Franklin,		
		13		
		German American,		
		14		
		German Savings,		
		15		
		St. Louis Union Tr. Co.		
		16		
		International,		
		19		
		Merchants'-Laclede,		
		21		
		Mercantile Trust,		
		22		
		Mississippi Valley Tr. Co.		
		26		
		Nat'l Bank Commerce,		
		27		
		South Side,		
		28		
		State Nat. Bank,		
		29		
		Third National,		
		32		
		Mechanics' Am. Nat'l,		
		38		
		Post Office,		
		TOTAL,		

FORM USED FOR LISTING BALANCES IN ST. LOUIS CLEARING-HOUSE.

National Monetary Commission

on the following day. Some banks, however, refuse to certify, but give a cashier's check to a creditor member in exchange for a manager's check held against them, and the former is sent through the exchanges on the following day. Manifestly there is no occasion for the appearance of the debtor members at the clearing house in the settlement of balances. Immediately, however, after issuing his checks to creditor members the manager fills out a blank giving the clearings and balances, as shown in the illustration, and delivers the same to the debtor bank.

In this way the member banks know whether the amount of their balance, as reported to them by the clerk on his return from the exchanges, proves with that listed by the manager, and also what banks hold the manager's certificates of indebtedness upon them and in what amount. If the total of the manager's checks issued against them agrees with the amount of their balance, they know that to be correct the manager's checks presented at their counter by the creditor members must agree with the amounts of the same as listed on the card by the manager. This custom of delivering cards is practically unknown to other associations.

The by-laws define proper matter for clearing as follows:

1. All checks or drafts upon or certificates of deposit, demand or matured, of any member of the clearing house or any bank or trust company clearing through any member.

2. Any other matter specially agreed to by any member or any bank or trust company clearing through it until notice is given to the contrary.

Clearing - House Methods

ST. LOUIS CLEARING HOUSE.		
		1901
Clearings, . . . \$		
Balance, . . . \$		
No. _____		
Debit, . . . \$		
Checks Favor.		
No. _____ \$		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		
" _____		

FORM OF MANAGER'S REPORT OF CLEARINGS, BALANCES, ETC.

National Monetary Commission

3. Mercantile or other paper payable at any bank or trust company when such clearance shall have been authorized by the said bank or trust company, but not otherwise. All unstamped and illegibly stamped items shall be considered improper matter for clearing. Express money orders, railroad and other pay checks are not, by the rules of the association, proper matter for clearing, but their clearing is allowed by consent of the banks at which they are payable, and only on conditions prescribed by such banks. Such orders and pay checks "must be listed on separate slips, fastened together firmly with the slips, and the full amount of them entered as one check upon the regular clearing slip." For violation of this rule any member is liable to a fine of \$2 for clearing improper matter.

The manager keeps the following records of transactions:

1. A record of daily clearings and balances of each member. The same, by addition, is found for weeks, months, or years.

2. The clearings register showing the daily clearings, debits, and credits of each member.

3. A record of total credit clearings of each member by months.

4. A record of the clearings, debit and credit, by months for each member, a total of the same being made at the end of the year.

5. A monthly and annual total of the clearings of all the members.

6. A condensed record of the published bank statements.

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Although, as we have seen, there has been a great decrease in the membership from the original number, the volume of exchanges has gone on increasing, and the association now takes fifth rank among the clearing houses of the country.

Thus we have reviewed the methods and manner of administration of our five largest clearing houses, and with a few minor exceptions, designed generally to meet some local condition, the conduct of the other clearing houses of the country is along very similar lines.

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